



April 10, 2009

ENGROSSED

SENATE BILL No. 501

DIGEST OF SB 501 (Updated April 8, 2009 5:00 pm - DI 101)

Citations Affected: IC 4-4; IC 5-20; IC 26-1; IC 26-2; noncode.

Synopsis: Uniform commercial code revisions and economic development. Establishes the small business loan program administered by the Indiana finance authority (IFA). Establishes the small business loan fund. Authorizes the IFA to transfer money in the fund to financial institutions for deposit at reduced interest rates. Requires the financial institution to loan the money to approved small business development projects. Provides that the interest rate charged to the small business may not exceed the rate payable to the IFA plus 3%. Provides that the maximum amount that may be deposited for a particular small business development project is \$1,000,000. Requires an annual report from the entity responsible for carrying out the duties of the Indiana economic development corporation concerning small business development. Transfers administration of the microenterprise partnership program fund, certain responsibility for small business development, the microenterprise partnership program, and the small and minority business financial assistance program from the Indiana economic development corporation to the Indiana housing and community development authority. Provides that a choice of laws
(Continued next page)

Effective: Upon passage; July 1, 2009; July 1, 2010.

Simpson, Holdman

(HOUSE SPONSORS — LAWSON L. FOLEY)

January 15, 2009, read first time and referred to Committee on Judiciary.
February 5, 2009, amended, reported favorably — Do Pass.
February 9, 2009, read second time, ordered engrossed.
February 10, 2009, engrossed. Read third time, passed. Yeas 50, nays 0. Pursuant to Senate Rule 33(c), technical corrections.
February 11, 2009, engrossed.

HOUSE ACTION
February 25, 2009, read first time and referred to Committee on Financial Institutions.
April 9, 2009, amended, reported — Do Pass.

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clause in a construction or design contract is not enforceable unless the clause relates to certain provisions of the Uniform Commercial Code. Defines "record" and amends the definitions of "bank" for purposes of the Uniform Commercial Code (UCC). Amends the definition of "good faith" as it applies to certain provisions of the UCC. (Adopts the most recent revisions to the parts of the UCC concerning negotiable instruments and bank deposits and collections, including the following: (1) Provides that a person who has lost possession of an instrument but acquired ownership of the instrument directly or indirectly from a person entitled to enforce it may enforce the lost instrument. (2) Specifies the conditions under which payment of an instrument is discharged, if the instrument has been transferred to another person. (3) Adds provisions concerning telephonically generated checks, in which a consumer authorizes a check to be issued in his or her name over the telephone to pay an obligation. (4) Adds provisions concerning the rights of principal and secondary obligors. (5) Provides that the omission of certain disclosure statements in an instrument used in a consumer transaction is not a defense against enforcement of the instrument. Makes conforming amendments.

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April 10, 2009

First Regular Session 116th General Assembly (2009)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2008 Regular Session of the General Assembly.

ENGROSSED SENATE BILL No. 501

A BILL FOR AN ACT to amend the Indiana Code concerning commercial law.

Be it enacted by the General Assembly of the State of Indiana:

- 1 SECTION 1. IC 4-4-34 IS ADDED TO THE INDIANA CODE AS
2 A **NEW** CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY
3 1, 2009]:
4 **Chapter 34. Small Business Loan Program**
5 **Sec. 1. As used in this chapter, "authority" means the Indiana**
6 **finance authority created by IC 4-4-11-4.**
7 **Sec. 2. As used in this chapter, "financial institution" means any**
8 **bank, trust company, corporate fiduciary, savings association,**
9 **credit union, savings bank, bank of discount and deposit, or**
10 **industrial loan and investment company that is:**
11 **(1) organized or reorganized under the laws of this state; or**
12 **(2) organized or reorganized under the laws of the United**
13 **States and has its headquarters in Indiana.**
14 **The term includes a consumer finance institution licensed to make**
15 **supervised or regulated loans under IC 24-4.5.**
16 **Sec. 3. As used in this chapter, "fund" means the small business**
17 **loan fund established by section 7 of this chapter.**

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1 **Sec. 4. As used in this chapter, "participating financial**
 2 **institution" means a financial institution approved by the authority**
 3 **to participate in the small business loan program authorized by**
 4 **this chapter.**

5 **Sec. 5. As used in this chapter, "small business" means any**
 6 **person, firm, corporation, limited liability company, partnership,**
 7 **or association that:**

8 (1) **is actively engaged in business in Indiana and maintains its**
 9 **principal place of business in Indiana;**

10 (2) **is independently owned and operated;**

11 (3) **employs not more than one hundred (100) full-time**
 12 **employees; and**

13 (4) **has gross annual receipts of not more than five million**
 14 **dollars (\$5,000,000).**

15 **Sec. 6. As used in this chapter, "small business development**
 16 **project" refers to a small business start up or expansion project**
 17 **that proposes to create new jobs in Indiana.**

18 **Sec. 7. (a) There is established the small business loan fund. The**
 19 **fund shall be administered by the authority under the direction of**
 20 **the authority's board. Money in the fund must be used for the**
 21 **purposes of this chapter.**

22 (b) **The fund consists of the following resources:**

23 (1) **Appropriations from the general assembly.**

24 (2) **Gifts, grants, and donations of any tangible or intangible**
 25 **property from public or private sources.**

26 (3) **Investment income earned on the fund's assets.**

27 (4) **Repayments of loans from the fund.**

28 (c) **The treasurer of state shall invest the money in the fund not**
 29 **currently needed to meet the obligations of the fund in the same**
 30 **manner as other public funds may be invested.**

31 (d) **The money remaining in the fund at the end of a fiscal year**
 32 **does not revert to the state general fund.**

33 (e) **Interest earned on the fund may be used by the authority to**
 34 **pay expenses incurred in the administration of the fund.**

35 **Sec. 8. A financial institution that wishes to participate in the**
 36 **small business loan program established by this chapter shall apply**
 37 **to the authority for the authority's approval. A financial institution**
 38 **may not participate in the program until the financial institution's**
 39 **application is approved. The authority shall publish and maintain**
 40 **a list of participating financial institutions on the authority's**
 41 **Internet web site.**

42 **Sec. 9. (a) A small business that wishes to obtain a loan under**

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1 this chapter must submit an application to a participating financial
 2 institution on a form prescribed by the authority. The application
 3 must describe the small business development project for which the
 4 small business will use a loan received under this chapter.

5 (b) A small business may not receive a loan under this chapter
 6 unless the participating financial institution to which the small
 7 business submitted the application required by subsection (a):

8 (1) approves the application submitted by the small business;
 9 and

10 (2) applies for and receives a deposit of money transferred
 11 from the fund that must be used to provide the loan.

12 (c) A participating financial institution must approve an
 13 application submitted under subsection (a) or inform the applicant
 14 that the application has been rejected by the participating financial
 15 institution not more than fifteen (15) days after the date the
 16 application is submitted.

17 (d) In determining whether to approve an application submitted
 18 under subsection (a), the participating financial institution shall
 19 evaluate the application using guidelines and criteria developed by
 20 the entity responsible for carrying out the duties of the Indiana
 21 economic development corporation under IC 5-28-17 concerning
 22 small business development.

23 Sec. 10. A participating financial institution that approves an
 24 application submitted under section 9 of this chapter for a small
 25 business development project shall apply to receive a deposit under
 26 this chapter by submitting to the authority:

27 (1) a copy of the approved application; and

28 (2) any additional information required by the authority on a
 29 form prescribed by the authority.

30 Sec. 11. The authority shall establish a program review
 31 committee to review each application received from a participating
 32 financial institution under section 10 of this chapter. The
 33 committee must consider the following before making a
 34 recommendation to the authority concerning the small business
 35 development project for which the participating financial
 36 institution has applied for a deposit:

37 (1) Whether the proposed small business development project
 38 is economically sound and will benefit the people of Indiana
 39 by increasing opportunities for employment in Indiana and
 40 strengthening the economy of Indiana.

41 (2) Whether receiving a loan under this chapter is a major
 42 factor in the small business owner's decision to go forward

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with the project and not receiving the loan will result in the small business not creating new jobs in Indiana.

Sec. 12. Upon the recommendation of the program review committee approving a small business development project, the authority may transfer money from the fund to the participating financial institution for deposit. Interest payable to the authority on money deposited in the financial institution under this section may not exceed the difference between:

- (1) the interest rate for fifty-two (52) week United States Treasury bills, as in effect on the day of the deposit; minus
- (2) one and five-tenths percent (1.5%).

Sec. 13. (a) A participating financial institution that receives money for deposit under section 12 of this chapter must use the money to provide a low interest loan to the owner of the small business who must use the loan for purposes permitted by section 14 of this chapter. A participating financial institution that makes a loan under this chapter may not charge an interest rate to the owner of the small business that exceeds:

- (1) the interest rate payable to the authority under section 12 of this chapter; plus
- (2) three percent (3%).

(b) A participating financial institution and the owner of a small business that receives a loan under this chapter shall enter a loan agreement that must include the following:

- (1) A requirement that the loan proceeds be used for specified purposes consistent with the requirements of this chapter.
- (2) The term of the loan, which may not be greater than twenty (20) years.
- (3) The repayment schedule.
- (4) The interest rate of the loan.
- (5) Any other terms and provisions that the authority or financial institution requires.

(c) A loan agreement under this section may also contain:

- (1) a requirement that the loan be insured directly or indirectly by a loan insurer or be guaranteed by a loan guarantor; and
- (2) a requirement of any other type or types of security or collateral that the authority or financial institution considers reasonable or necessary.

Sec. 14. The owner of a small business may use the proceeds of a loan received under this chapter for one (1) or more of the following purposes:

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- (1) To purchase real property.
- (2) To construct, renovate, or expand a building.
- (3) To purchase equipment, furniture, fixtures, or inventory.
- (4) Working capital purposes.

Sec. 15. The maximum amount of a deposit made under section 12 of this chapter for a particular small business development project is one million dollars (\$1,000,000).

Sec. 16. (a) The authority shall, following the close of each state fiscal year, submit an annual report of its activities under this chapter for the preceding state fiscal year to the governor, the budget committee, and the general assembly. A report submitted to the general assembly must be in an electronic format under IC 5-14-6. The governor shall forward a copy of the report to the entity responsible for carrying out the duties of the Indiana economic development corporation under IC 5-28-17 concerning small business development.

(b) Beginning November 1, 2010, and before November 1 of each succeeding year, the entity responsible for carrying out the duties of the Indiana economic development corporation under IC 5-28-17 concerning small business development shall:

- (1) review the report submitted under subsection (a);
- (2) evaluate the effectiveness of the small business loan program; and
- (3) submit its findings to the governor, the budget committee, the authority, and the general assembly.

A report submitted to the general assembly must be in an electronic format under IC 5-14-6.

Sec. 17. (a) An obligation of the authority for losses on loans resulting from death, default, bankruptcy, or total or permanent disability of borrowers is not a debt of the state but is payable solely from the fund.

(b) The making of loans from money transferred from the fund does not constitute the lending of credit by the state for purposes of any other statute or the Constitution of the State of Indiana.

SECTION 2. IC 5-20-7 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 7. Microenterprise Partnership Program Fund

Sec. 1. As used in this chapter, "authority" refers to the Indiana housing and community development authority created under IC 5-20-1-3.

Sec. 2. As used in this chapter, "federal income poverty level"

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means the nonfarm income official poverty line as determined annually by the federal Office of Management and Budget.

Sec. 3. As used in this chapter, "fund" refers to the microenterprise partnership program fund established by section 8 of this chapter.

Sec. 4. As used in this chapter, "local board" means the:

- (1) governing body of an eligible entity described in section 13 of this chapter; or
- (2) board of directors of a corporation described in section 14 of this chapter.

Sec. 5. As used in this chapter, "local pool" includes both a local investment pool established under section 13 of this chapter and a local opportunity pool established under section 14 of this chapter.

Sec. 6. As used in this chapter, "nontraditional entrepreneur" means a person who operates or seeks to establish a business in Indiana and who is described in one (1) or more of the following categories:

- (1) Persons whose employment has been terminated or who have been laid off and who have limited opportunities for employment or reemployment in the same or a similar occupation in the area in which they reside.
- (2) Persons who are employed but whose family income is not greater than one hundred twenty-five percent (125%) of the federal income poverty level for the same size family.
- (3) Single parents whose family income is not greater than one hundred twenty-five percent (125%) of the federal income poverty level for the same size family.
- (4) Minorities.
- (5) Women.
- (6) Persons who are at least sixty-five (65) years of age.
- (7) Persons who are at least eighteen (18) years of age but less than twenty-four (24) years of age.
- (8) Welfare recipients.
- (9) Owners or operators of existing businesses with less than twenty-five (25) employees.
- (10) Persons who by reason of physical or mental disability are unable to achieve full vocational participation.
- (11) Members of family farms undergoing economic adjustment and seeking sources of income in addition to the farm.

Sec. 7. (a) The general assembly makes the following findings of fact:

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(1) There exists in Indiana an inadequate amount of locally managed, pooled investment capital in the private sector available to invest in new and existing business ventures, including business ventures by nontraditional entrepreneurs.

(2) Investing capital and business management advice in new and existing business ventures, including business ventures by nontraditional entrepreneurs, will enhance economic development and create and retain employment in Indiana. This investment will enhance the health and general welfare of the people of Indiana, and it constitutes a public purpose.

(3) Nontraditional entrepreneurs have not engaged in entrepreneurship and self-employment to the extent found in the mainstream of Indiana's population. Realizing the potential of these nontraditional entrepreneurs will enhance Indiana's economic vitality.

(b) It is the policy of the state to promote economic development and entrepreneurial talent of Indiana's inhabitants by the creation of the microenterprise partnership program fund for the public purpose of promoting opportunities for gainful employment and business opportunities.

Sec. 8. (a) The microenterprise partnership program fund is established within the state treasury. The fund is a revolving fund to:

(1) provide loans approved by the authority under this chapter and IC 5-20-8;

(2) carry out the microenterprise partnership program under IC 5-20-9; and

(3) provide loans or loan guarantees under the small and minority business financial assistance program established by IC 5-20-10-9.

(b) The fund consists of appropriations from the general assembly and loan repayments.

(c) The authority shall administer the fund. The following may be paid from money in the fund:

(1) Expenses of administering the fund.

(2) Nonrecurring administrative expenses incurred to carry out the purposes of this chapter, IC 5-20-9, and IC 5-20-10.

(d) Earnings from loans made under this chapter shall be deposited in the fund.

(e) The treasurer of state shall invest the money in the fund not currently needed to meet the obligations of the fund in the same manner as other public funds may be invested. Interest that

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1 accrues from these investments shall be deposited in the state
2 general fund.

3 (f) Money in the fund at the end of a state fiscal year does not
4 revert to the state general fund.

5 (g) The fund is subject to an annual audit by the state board of
6 accounts. The fund shall bear the full costs of the audit.

7 **Sec. 9. (a) The authority shall perform the following duties:**

8 (1) Establish and implement the policies and procedures to be
9 used by the authority in the administration of the fund.

10 (2) Subject to section 11 of this chapter, establish criteria for
11 awarding loans from the fund.

12 (3) Review and approve or disapprove applications for loans
13 from the fund.

14 (4) Establish the terms of loans from the fund, which must
15 include the conditions set forth in section 12 of this chapter.

16 (5) Award the loans approved under this chapter.

17 (6) Provide the staff and other resources necessary to
18 implement this chapter.

19 (7) Prepare and distribute to appropriate entities throughout
20 Indiana requests for proposals for the organization and
21 operation of local pools.

22 (8) Conduct conferences and seminars concerning the fund.

23 (9) Submit a report concerning the fund to the general
24 assembly before November 1 of each year. The report must
25 include detailed information concerning the structure,
26 operation, and financial condition of the fund. The report
27 must be in an electronic format under IC 5-14-6.

28 (b) The authority may enter into contracts necessary for the
29 administration of this chapter, including contracts for servicing
30 loans from the fund.

31 **Sec. 10. A local board may apply for a loan from the fund. A**
32 **local board's application for a loan must include the following**
33 **information:**

34 (1) The total amount of the loan requested from the fund.

35 (2) The total amount of matching funds to be provided from
36 the local pool operated by the local board and the sources of
37 those matching funds.

38 (3) A detailed description of the local pool, including its
39 investment criteria.

40 (4) The impact of the proposed loan on job production in the
41 area served by the local pool.

42 (5) Any other information requested by the authority.

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1 **Sec. 11. The authority's criteria for awarding loans from the**
 2 **fund to a local board must include the following factors:**

3 (1) The extent to which local financial institutions invest and
 4 participate in the local pool.

5 (2) The extent to which the local pool is used as a secondary
 6 source of financing that complements conventional financing
 7 provided by existing financial institutions.

8 (3) The local board's knowledge of successful business
 9 practices.

10 (4) The extent to which the local board will target the
 11 proceeds of the loan toward nontraditional entrepreneurs.

12 (5) The extent to which the local board intends to use the loan
 13 proceeds for investment in debt, equity, debt with equity
 14 attributes, or other forms of creative financing.

15 (6) The extent to which the local board's proposed program
 16 will encourage clustering of small business programs through
 17 proximity to small business incubators and other sources of
 18 small business assistance and technology transfer.

19 (7) Other criteria established by the authority.

20 **Sec. 12. A loan from the fund to a local board is subject to the**
 21 **following conditions:**

22 (1) The local board may use the loan from the fund only to
 23 make and service grants, equity investments, loans, and loan
 24 guarantees to persons who are establishing or operating
 25 businesses in Indiana. However, the local board may not
 26 spend any part of the loan from the fund to defray the
 27 expenses of servicing grants, loans, and loan guarantees unless
 28 that expenditure is specifically authorized in the loan
 29 agreement with the authority.

30 (2) The term of the loan may not exceed twenty (20) years.

31 (3) The loan must require the local board to provide matching
 32 funds in an amount determined by the authority. However,
 33 the total of the loan plus the matching funds must be at least:

34 (A) one million dollars (\$1,000,000) for a local investment
 35 pool established under section 13 of this chapter; or

36 (B) five hundred thousand dollars (\$500,000) for a local
 37 opportunity pool established under section 14 of this
 38 chapter.

39 (4) The authority may forgive or defer payment of all or part
 40 of the interest and principal on the loan.

41 (5) The loan agreement must require the local board, through
 42 its staff or consultants, to perform the following duties with

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respect to recipients of financial assistance from the local pool:

(A) Provide training in business and financial management techniques.

(B) Oversee the fiscal operations of the recipients of financial assistance for at least one (1) year following the receipt of that assistance.

(C) Provide fiscal management assistance to recipients of financial assistance when necessary for at least one (1) year following the receipt of the assistance, including assistance in the preparation and filing of federal and state tax returns.

(6) The local board must make a report concerning the local pool to the authority before September 1 of each year. The report must include detailed information concerning the structure, operation, and financial condition of the local pool.

(7) Any other conditions that the authority considers appropriate.

Sec. 13. (a) As used in this section, "eligible entity" means any partnership, unincorporated association, corporation, or limited liability company, whether or not operated for profit, that is established for the purpose of establishing a local investment pool.

(b) A local investment pool may be established only by an eligible entity. A political subdivision may participate in the establishment of an eligible entity but may not be the sole member of the eligible entity.

(c) The articles of incorporation or bylaws of the eligible entity, as appropriate, must provide the following:

(1) The exclusive purpose of the eligible entity is to establish a local investment pool to:

(A) attract private equity investment to provide grants, equity investments, loans, and loan guarantees for the establishment or operation of businesses in Indiana; and

(B) provide a low to moderate rate of return to investors in the short term, with higher rates of return in the long term.

(2) The governing body of the eligible entity must include:

(A) persons who are qualified by professional background and business experience to make sound financial and investment decisions in the private sector; and

(B) representatives of nontraditional entrepreneurs.

(3) The eligible entity may receive funds from:

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- (A) equity investors;
- (B) grants and loans from local units of government;
- (C) grants and loans from the federal government;
- (D) donations; and
- (E) loans from the fund.

Sec. 14. (a) A local opportunity pool may be established only by a nonprofit corporation or a for-profit corporation established for that purpose. A political subdivision may participate in the establishment of such a corporation but may not be the sole member of the corporation.

(b) The articles of incorporation or bylaws of a corporation described in subsection (a), as appropriate, must provide the following:

(1) The exclusive purpose of the corporation described in subsection (a) is to establish a local opportunity pool to:

- (A) attract sources of funding other than private equity investment to provide grants, loans, and loan guarantees for the establishment or operation of nontraditional entrepreneurial endeavors in Indiana; and**
- (B) enter into financing agreements that seek the return of the principal amounts advanced by the pool, with the potential for a greater return.**

(2) The board of directors of the corporation described in subsection (a) must include:

- (A) persons who are actively engaged in Indiana in private enterprise, organized labor, or state or local governmental agencies and who are qualified by professional background and business experience to make sound financial and investment decisions in the private sector; and**
- (B) representatives of nontraditional entrepreneurs.**

(3) The corporation described in subsection (a) may receive funds from:

- (A) philanthropic foundations;**
- (B) grants and loans from local units of government;**
- (C) grants and loans from the federal government;**
- (D) donations;**
- (E) bequests; and**
- (F) loans from the fund.**

Sec. 15. The making of loans from the fund does not constitute the lending of credit by the state for purposes of any other statute or the Constitution of the State of Indiana.

SECTION 3. IC 5-20-8 IS ADDED TO THE INDIANA CODE AS

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A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 8. Small Business Development

Sec. 1. As used in this chapter, "authority" refers to the Indiana housing and community development authority created under IC 5-20-1-3.

Sec. 2. (a) The authority shall do the following to carry out this chapter:

(1) Contribute to the strengthening of the economy of Indiana by encouraging the organization and development of new business enterprises, including technologically oriented enterprises.

(2) Submit an annual report to the governor and to the general assembly not later than November 1 of each year. The annual report must:

(A) include detailed information on the structure, operation, and financial status of the authority; and

(B) be in an electronic format under IC 5-14-6.

The authority shall conduct an annual public hearing to receive comment from interested parties regarding the annual report, and notice of the hearing shall be given at least fourteen (14) days before the hearing in accordance with IC 5-14-1.5-5(b).

(3) Approve and administer loans from the microenterprise partnership program fund established by IC 5-20-7.

(4) Conduct activities for nontraditional entrepreneurs under IC 5-20-7.

(5) Establish and administer the microenterprise partnership program under IC 5-20-9.

(6) Establish and administer the small and minority business financial assistance program under IC 5-20-10.

(b) The authority may do the following to carry out this chapter:

(1) Receive money from any source, enter into contracts, and expend money for any activities appropriate to its purpose.

(2) Do all other things necessary or incidental to carrying out the authority's functions under this chapter.

(3) Establish programs to identify entrepreneurs with marketable ideas and to support the organization and development of new business enterprises, including technologically oriented enterprises.

(4) Conduct conferences and seminars to provide

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entrepreneurs with access to individuals and organizations with specialized expertise.

(5) Establish a statewide network of public, private, and educational resources to assist the organization and development of new enterprises.

(6) Operate a small business assistance center to provide small businesses, including minority owned businesses and businesses owned by women, with access to managerial and technical expertise and to provide assistance in resolving problems encountered by small businesses.

(7) Cooperate with public and private entities, including the Indiana Small Business Development Center Network and the federal government marketing program, in exercising the powers listed in this subsection.

(8) Establish and administer the small and minority business financial assistance program under IC 5-28-10.

(9) Approve and administer loans from the microenterprise partnership program fund established by IC 5-20-7.

(10) Coordinate state funded programs that assist the organization and development of new enterprises.

Sec. 3. Debts incurred by the small business development corporation under authority of IC 4-3-12 (before its repeal) do not represent or constitute a debt of the state within the meaning of the Constitution of the State of Indiana or Indiana statutes. The authority may not incur debt under this chapter. However, the authority shall assume the debt of the small business development corporation that is outstanding on the date the small business development corporation is abolished.

SECTION 4. IC 5-20-9 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 9. Microenterprise Partnership Program

Sec. 1. As used in this chapter, "authority" refers to the Indiana housing and community development authority created under IC 5-20-1-3.

Sec. 2. As used in this chapter, "microenterprise" means a business with fewer than five (5) employees. The term includes startup, home based, and self-employed businesses.

Sec. 3. As used in this chapter, "microloan" means a business loan of not more than twenty-five thousand dollars (\$25,000).

Sec. 4. As used in this chapter, "microloan delivery organization" means a community based or nonprofit program

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that:

- (1) has developed a viable plan for providing training, access to financing, and technical assistance to microenterprises; and
- (2) meets the criteria and qualifications set forth in this chapter.

Sec. 5. As used in this chapter, "operating costs" refers to the costs associated with administering a loan or a loan guaranty, administering a revolving loan program, or providing for business training and technical assistance to a microloan recipient.

Sec. 6. As used in this chapter, "program" refers to the microenterprise partnership program established under section 7 of this chapter.

Sec. 7. (a) The authority shall establish the microenterprise partnership program to provide grants to microloan delivery organizations.

(b) A grant provided under subsection (a) may not exceed twenty-five thousand dollars (\$25,000).

(c) A microloan delivery organization receiving a grant under this section must use the grant for the purposes set forth in this chapter.

Sec. 8. To establish the criteria for making a grant to a microloan delivery organization, the authority shall consider the following:

- (1) The microloan delivery organization's plan for providing business development services and microloans to microenterprises.
- (2) The scope of services provided by the microloan delivery organization.
- (3) The microloan delivery organization's plan for coordinating the services and loans provided under this chapter with those provided by commercial lending institutions.
- (4) The geographic representation of all regions of Indiana, including both urban and rural communities and neighborhoods.
- (5) The microloan delivery organization's emphasis on supporting female and minority entrepreneurs.
- (6) The ability of the microloan delivery organization to provide business training and technical assistance to microenterprises.
- (7) The ability of the microloan delivery organization to monitor and provide financial oversight of recipients of

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microloans.

(8) The sources and sufficiency of the microloan delivery organization's operating funds.

Sec. 9. A grant received by a microloan delivery organization may be used for the following purposes:

(1) To satisfy matching fund requirements for federal or private grants.

(2) To establish a revolving loan fund from which the microloan delivery organization may make loans to microenterprises.

(3) To establish a guaranty fund from which the microloan delivery organization may guarantee loans made by commercial lending institutions to microenterprises.

(4) To pay the operating costs of the microloan delivery organization. However, not more than ten percent (10%) of a grant may be used for this purpose.

Sec. 10. Money appropriated to the program must be matched by at least an equal amount of money derived from any of the following nonstate sources:

(1) Private foundations.

(2) Federal sources.

(3) Local government sources.

(4) Quasi-governmental entities.

(5) Commercial lending institutions.

(6) Any other source whose funds do not include money appropriated by the general assembly.

Sec. 11. At least fifty percent (50%) of the microloan money disbursed by a microloan delivery organization must be disbursed in microloans that do not exceed ten thousand dollars (\$10,000).

Sec. 12. The authority may prescribe standards, procedures, and other guidelines to implement this chapter.

Sec. 13. The authority may use money in the microenterprise partnership program fund established by IC 5-20-7-7 or any other money available to the authority to carry out this chapter.

Sec. 14. Before August 1 of each year, the authority shall submit to the budget committee a supplemental report on a longitudinal study:

(1) describing the economic development outcomes resulting from microloans made under this chapter; and

(2) evaluating the effectiveness of the microloan delivery organizations and the microloans made under this chapter in:

(A) expanding employment and self-employment

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opportunities in Indiana; and

(B) increasing the incomes of persons employed by microenterprises.

SECTION 5. IC 5-20-10 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 10. Small and Minority Business Financial Assistance Program

Sec. 1. As used in this chapter, "authority" refers to the Indiana housing and community development authority created under IC 5-20-1-3.

Sec. 2. As used in this chapter, "approved lender" means any:

(1) lending institution; or

(2) bank, trust company, building and loan association, or credit union;

that is approved by the authority as a lender under this chapter.

Sec. 3. As used in this chapter, "fund" refers to the microenterprise partnership program fund established by IC 5-20-7-7.

Sec. 4. As used in this chapter, "loan" means a direct loan from the fund.

Sec. 5. As used in this chapter, "minority business" means an individual, a partnership, a corporation, a limited liability company, or a joint venture of any kind that is owned and controlled by one (1) or more persons who are:

(1) United States citizens; and

(2) members of a minority group.

Sec. 6. As used in this chapter, "minority group" means:

(1) blacks;

(2) American Indians;

(3) Hispanics;

(4) Asian Americans; and

(5) other similar racial minority groups.

Sec. 7. As used in this chapter, "owned and controlled" means having:

(1) ownership of at least fifty-one percent (51%) of the enterprise, including corporate stock of a corporation;

(2) control over the management and being active in the day to day operations of the business; and

(3) an interest in the capital, assets, and profits and losses of the business proportionate to the percentage of ownership.

Sec. 8. As used in this chapter, "program" refers to the small

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and minority business financial assistance program established by section 10 of this chapter.

Sec. 9. As used in this chapter, "small business" has the meaning set forth in IC 5-22-14-1. The term includes an independently owned and operated business that is operating under a franchise from another business.

Sec. 10. The small and minority business financial assistance program is established to provide loans and loan guarantees under this chapter.

Sec. 11. The authority shall do the following:

(1) Establish and implement the policies and procedures to be used in the administration of this chapter.

(2) Enter into contracts and guarantee agreements, as necessary, with approved lenders, state governmental agencies, corporations, and United States governmental agencies, including agreements for federal insurance of losses resulting from death, default, bankruptcy, or total and permanent disability of borrowers.

(3) Establish criteria for awarding loans and loan guarantees from the fund, and require that any loan or loan guarantee under this chapter be disbursed and repaid in the manner that the corporation prescribes.

(4) Accept, use, and disburse federal funds made available to the corporation by the federal government for the purposes described in this section.

(5) Take, hold, and administer, on behalf of any loan program and for purposes of this chapter, property and money and the interest and income derived from the property and money either absolutely or in trust.

(6) Accept gifts, grants, bequests, devises, and loans for purposes of this chapter.

(7) Adopt bylaws to implement this chapter.

Sec. 12. (a) An obligation of the program for losses on loans resulting from death, default, bankruptcy, or total or permanent disability of borrowers is not a debt of the state but is payable solely from the fund.

(b) The making of loans from the fund does not constitute the lending of credit by the state for purposes of any other statute or the Constitution of the State of Indiana.

Sec. 13. From the fund, the authority shall:

(1) guarantee loans made by approved lenders upon conditions prescribed under this chapter to small or minority

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businesses to assist them in the operation or expansion of their businesses; and

(2) make loans upon conditions prescribed under this chapter to small or minority businesses for the purpose of assisting them in the operation and expansion of their businesses.

Sec. 14. In making loans from the fund, the authority shall require that the recipients of the loans receive training in business and financial management skills, including the preparation and filing of state and federal tax returns.

Sec. 15. (a) The training required by section 13 of this chapter may be provided by consultants or staff members of the authority. The authority shall establish standards for the training.

(b) The duties of the consultants or staff members are as follows:

(1) To provide training in business and financial management techniques to the recipients of loans under this chapter when directed by the authority.

(2) To oversee the fiscal operations of recipients of loans under this chapter for at least one (1) year following the receipt of the loan.

(3) To provide fiscal management assistance when necessary for at least one (1) year following the receipt of the loan, including assisting recipients in filing state and federal tax returns.

SECTION 6. IC 26-1-1-201, AS AMENDED BY P.L.143-2007, SECTION 3, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 201. Subject to additional definitions contained in IC 26-1-2 through IC 26-1-10 which are applicable to specific provisions, and unless the context otherwise requires, in IC 26-1:

(1) "Action" in the sense of a judicial proceeding includes recoupment, counterclaim, setoff, suit in equity, and any other proceedings in which rights are determined.

(2) "Aggrieved party" means a party entitled to resort to a remedy.

(3) "Agreement" means the bargain of the parties in fact as found in their language or by implication from other circumstances including course of dealing or usage of trade or course of performance as provided in IC 26-1-1-205. Whether an agreement has legal consequences is determined by the provisions of IC 26-1, if applicable; otherwise by the law of contracts (IC 26-1-1-103). (Compare "Contract".)

(4) "Bank" means any a person engaged in the business of banking and includes a savings bank, savings and loan

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association, credit union, and trust company.

(5) "Bearer" means the person:

- (A) in control of a negotiable electronic document of title; or
- (B) in possession of a negotiable instrument, a negotiable tangible document of title, or a certificated security payable to bearer or endorsed in blank.

(6) "Bill of lading" means a document of title evidencing the receipt of goods for shipment issued by a person engaged in the business of directly or indirectly transporting or forwarding goods. The term does not include a warehouse receipt. The term includes an airbill. "Airbill" means a document serving for air transportation as a bill of lading does for marine or rail transportation, and includes an air consignment note or air waybill.

(7) "Branch" includes a separately incorporated foreign branch of a bank.

(8) "Burden of establishing" a fact means the burden of persuading the triers of fact that the existence of the fact is more probable than its nonexistence.

(9) "Buyer in ordinary course of business" means a person that buys goods in good faith without knowledge that the sale violates the rights of another person in the goods, and in the ordinary course from a person, other than a pawnbroker, in the business of selling goods of that kind. A person buys goods in the ordinary course of business if the sale to the person comports with the usual or customary practices in the kind of business in which the seller is engaged or with the seller's own usual or customary practices. A person that sells oil, gas, or other minerals at the wellhead or minehead is a person in the business of selling goods of that kind. A buyer in ordinary course of business may buy for cash, by exchange of other property, or on secured or unsecured credit, and may require goods or documents of title under a preexisting contract for sale. Only a buyer that takes possession of the goods or has a right to recover the goods from that seller under IC 26-1-2 may be a buyer in ordinary course of business. A person that acquires goods in a transfer in bulk or as security for or total or partial satisfaction of a money debt is not a buyer in ordinary course of business.

(10) "Conspicuous". A term or clause is conspicuous when it is so written that a reasonable person against whom it is to operate ought to have noticed it. A printed heading in capitals (as: NONNEGOTIABLE BILL OF LADING) is conspicuous.

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Language in the body of a form is conspicuous if it is in larger or other contrasting type or color. But in a telegram any stated term is conspicuous. Whether a term or clause is conspicuous or not is for decision by the court.

(11) "Contract" means the total legal obligation which results from the parties' agreement as affected by this Act and any other applicable rules of law. (Compare "Agreement".)

(12) "Creditor" includes a general creditor, a secured creditor, a lien creditor and any representative of creditors, including an assignee for the benefit of creditors, a trustee in bankruptcy, a receiver in equity, and an executor or administrator of an insolvent debtor's or assignor's estate.

(13) "Defendant" includes a person in the position of defendant in a cross-action or counterclaim.

(14) "Delivery" means the following:

(A) With respect to an electronic document of title, voluntary transfer of control.

(B) With respect to instruments, tangible documents of title, chattel paper, or certificated securities, voluntary transfer of possession.

(15) "Document of title" means a record that:

(A) in the regular course of business or financing, is treated as adequately evidencing that the person in possession or control of the record is entitled to receive, control, hold, and dispose of the record and the goods it covers; and

(B) purports to be issued by or addressed to a bailee and purports to cover goods in the bailee's possession which are either identified or are fungible portions of an identified mass.

The term includes a bill of lading, transport document, dock warrant, dock receipt, warehouse receipt, or order for delivery of goods. An electronic document of title means a document of title evidenced by a record consisting of information stored in an electronic medium. A tangible document of title means a document of title evidenced by a record consisting of information that is inscribed on a tangible medium.

(16) "Fault" means wrongful act, omission, or breach.

(17) "Fungible" with respect to goods or securities means goods or securities of which any unit is, by nature or usage of trade, the equivalent of any other like unit. Goods which are not fungible shall be deemed fungible for the purposes of IC 26-1 to the extent that under a particular agreement or document unlike units are treated as equivalents.

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(18) "Genuine" means free of forgery or counterfeiting.

(19) "Good faith", **except as otherwise provided by IC 26-1-4 or IC 26-1-5.1**, means honesty in fact ~~in the conduct or transaction concerned~~; **and the observance of reasonable commercial standards of fair dealing.**

(20) "Holder" means:

(A) the person in possession of a negotiable instrument that is payable either to bearer or to an identified person if the identified person is in possession of the instrument;

(B) the person in possession of a negotiable tangible document of title if the goods are deliverable either to bearer or to the order of the person in possession; or

(C) the person in control of a negotiable electronic document of title.

(21) To "honor" is to pay or to accept and pay or where a credit so engages to purchase or discount a draft complying with the terms of the credit.

(22) "Insolvency proceedings" includes any assignment for the benefit of creditors or other proceedings intended to liquidate or rehabilitate the estate of the person involved.

(23) A person is "insolvent" who either has ceased to pay the person's debts in the ordinary course of business or cannot pay the person's debts as they become due or is insolvent within the meaning of the federal bankruptcy law.

(24) "Money" means a medium of exchange authorized or adopted by a domestic or foreign government and includes a monetary unit of account established by an intergovernmental organization or by agreement between two (2) or more nations.

(25) A person has "notice" of a fact when:

(a) the person has actual knowledge of it;

(b) the person has received a notice or notification of it; or

(c) from all the facts and circumstances known to the person at the time in question, the person has reason to know that it exists.

A person "knows" or has "knowledge" of a fact when the person has actual knowledge of it. "Discover" or "learn" or a word or phrase of similar import refers to knowledge rather than to reason to know. The time and circumstances under which a notice or notification may cease to be effective are not determined by IC 26-1.

(26) A person "notifies" or "gives" a notice or notification to another by taking such steps as may be reasonably required to

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1 inform the other in ordinary course whether or not such other
 2 actually comes to know of it. A person "receives" a notice or
 3 notification when:

4 (a) it comes to the person's attention; or

5 (b) it is duly delivered at the place of business through which
 6 the contract was made or at any other place held out by the
 7 person as the place for receipt of such communications.

8 (27) Notice, knowledge, or a notice of notification received by an
 9 organization is effective for a particular transaction from the time
 10 when it is brought to the attention of the individual conducting
 11 that transaction and, in any event, from the time when it would
 12 have been brought to the person's attention if the organization had
 13 exercised due diligence. An organization exercises due diligence
 14 if it maintains reasonable routines for communicating significant
 15 information to the person conducting the transaction and there is
 16 reasonable compliance with the routines. Due diligence does not
 17 require an individual acting for the organization to communicate
 18 information unless such communication is part of the person's
 19 regular duties or unless the person has reason to know of the
 20 transaction and that the transaction would be materially affected
 21 by the information.

22 (28) "Organization" includes a corporation, government or
 23 governmental subdivision or agency, business trust, estate, trust,
 24 partnership or association, two (2) or more persons having a joint
 25 or common interest, or any other legal or commercial entity.

26 (29) "Party", as distinct from "third party", means a person who
 27 has engaged in a transaction or made an agreement within
 28 IC 26-1.

29 (30) "Person" includes an individual or an organization. (See
 30 IC 26-1-1-102.)

31 (31) "Presumption" or "presumed" means that the trier of fact
 32 must find the existence of the fact presumed unless and until
 33 evidence is introduced which would support a finding of its
 34 nonexistence.

35 (32) "Purchase" includes taking by sale, discount, negotiation,
 36 mortgage, pledge, lien, security interest, issue or reissue, gift, or
 37 any other voluntary transaction creating an interest in property.

38 (33) "Purchaser" means a person who takes by purchase.

39 (33a) "Registered mail" includes certified mail.

40 **(33b) "Record", except as used in IC 26-1-1.5-2 and**
 41 **IC 26-1-2.1-309, means information that is inscribed on a**
 42 **tangible medium or that is stored in an electronic or other**

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medium and is retrievable in perceivable form.

(34) "Remedy" means any remedial right to which an aggrieved party is entitled with or without resort to a tribunal.

(35) "Representative" includes an agent, an officer of a corporation or association, and a trustee, executor, or administrator of an estate, or any other person empowered to act for another.

(36) "Rights" includes remedies.

(37) "Security interest" means an interest in personal property or fixtures which secures payment or performance of an obligation. The term also includes any interest of a consignor and a buyer of accounts, chattel paper, a payment intangible, or a promissory note in a transaction that is subject to IC 26-1-9.1. The special property interest of a buyer of goods on identification of such goods to a contract for sale under IC 26-1-2-401 is not a security interest, but a buyer may also acquire a security interest by complying with IC 26-1-9.1. Except as otherwise provided in IC 26-1-2-505, the right of a seller or lessor of goods under IC 26-1-2 or IC 26-1-2.1 to retain or acquire possession of the goods is not a "security interest", but a seller or lessor may also acquire a "security interest" by complying with IC 26-1-9.1. The retention or reservation of title by a seller of goods notwithstanding shipment or delivery to the buyer (IC 26-1-2-401) is limited in effect to a reservation of a "security interest". Whether a transaction creates a lease or security interest is determined by the facts of each case. However, a transaction creates a security interest if the consideration the lessee is to pay the lessor for the right to possession and use of the goods is an obligation for the term of the lease not subject to termination by the lessee and:

(a) the original term of the lease is equal to or greater than the remaining economic life of the goods;

(b) the lessee is bound to renew the lease for the remaining economic life of the goods or is bound to become the owner of the goods;

(c) the lessee has an option to renew the lease for the remaining economic life of the goods for no additional consideration or nominal additional consideration upon compliance with the lease agreement; or

(d) the lessee has an option to become the owner of the goods for no additional consideration or nominal additional consideration upon compliance with the lease agreement.

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1 A transaction does not create a security interest merely because
2 it provides that:

- 3 (a) the present value of the consideration the lessee is
4 obligated to pay the lessor for the right to possession and use
5 of the goods is substantially equal to or is greater than the fair
6 market value of the goods at the time the lease is entered into;
7 (b) the lessee assumes risk of loss of the goods, or agrees to
8 pay taxes, insurance, filing, recording, or registration fees, or
9 service or maintenance costs with respect to the goods;
10 (c) the lessee has an option to renew the lease or to become the
11 owner of the goods;
12 (d) the lessee has an option to renew the lease for a fixed rent
13 that is equal to or greater than the reasonably predictable fair
14 market rent for the use of the goods for the term of the renewal
15 at the time the option is to be performed; or
16 (e) the lessee has an option to become the owner of the goods
17 for a fixed price that is equal to or greater than the reasonably
18 predictable fair market value of the goods at the time the
19 option is to be performed.

20 For purposes of this subsection:

- 21 (x) Additional consideration is not nominal if:
22 (i) when the option to renew the lease is granted to the lessee
23 the rent is stated to be the fair market rent for the use of the
24 goods for the term of the renewal determined at the time the
25 option is to be performed; or
26 (ii) when the option to become the owner of the goods is
27 granted to the lessee the price is stated to be the fair market
28 value of the goods determined at the time the option is to be
29 performed.

30 Additional consideration is nominal if it is less than the
31 lessee's reasonably predictable cost of performing under the
32 lease agreement if the option is not exercised.

33 (y) "Reasonably predictable" and "remaining economic life of
34 the goods" are to be determined with reference to the facts and
35 circumstances at the time the transaction is entered into.

36 (z) "Present value" means the amount as of a date certain of
37 one (1) or more sums payable in the future, discounted to the
38 date certain. The discount is determined by the interest rate
39 specified by the parties if the rate is not manifestly
40 unreasonable at the time the transaction is entered into.
41 Otherwise, the discount is determined by a commercially
42 reasonable rate that takes into account the facts and

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- 1 circumstances of each case at the time the transaction was
 2 entered into.
- 3 (38) "Send" in connection with any writing or notice means to
 4 deposit in the mail or deliver for transmission by any other usual
 5 means of communication with postage or cost of transmission
 6 provided for and properly addressed and, in the case of an
 7 instrument, to an address specified thereon or otherwise agreed
 8 or, if there be none, to any address reasonable under the
 9 circumstances. The receipt of any writing or notice within the
 10 time at which it would have arrived if properly sent has the effect
 11 of a proper sending.
- 12 (39) "Signed" includes any symbol executed or adopted by a party
 13 with present intention to authenticate a writing.
- 14 (40) "Surety" includes guarantor.
- 15 (41) "Telegram" includes a message transmitted by radio,
 16 teletype, cable, any mechanical method of transmission, or the
 17 like.
- 18 (42) "Term" means that portion of an agreement which relates to
 19 a particular matter.
- 20 (43) "Unauthorized" signature means one made without actual,
 21 implied, or apparent authority and includes a forgery.
- 22 (44) "Value". Except as otherwise provided with respect to
 23 negotiable instruments and bank collections (IC 26-1-3.1-303,
 24 IC 26-1-4-208, and IC 26-1-4-209) a person gives value for rights
 25 if the person acquires them:
- 26 (a) in return for a binding commitment to extend credit or for
 27 the extension of immediately available credit whether or not
 28 drawn upon and whether or not a chargeback is provided for
 29 in the event of difficulties in collection;
- 30 (b) as security for or in total or partial satisfaction of a
 31 preexisting claim;
- 32 (c) by accepting delivery pursuant to a preexisting contract for
 33 purchase; or
- 34 (d) generally, in return for any consideration sufficient to
 35 support a simple contract.
- 36 (45) "Warehouse receipt" means a document of title issued by a
 37 person engaged in the business of storing goods for hire.
- 38 (46) "Written" or "writing" includes printing, typewriting, or any
 39 other intentional reduction to tangible form.
- 40 SECTION 7. IC 26-1-1-301, AS ADDED BY P.L.143-2007,
 41 SECTION 5, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
 42 JULY 1, 2009]: Sec. 301. (1) Except as **provided in IC 26-2-5.5 or as**

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otherwise provided in this section, if a transaction bears a reasonable relation to Indiana and also to another state or nation, the parties may agree that the law either of Indiana or of the other state or nation shall govern their rights and duties.

(2) In the absence of an agreement under subsection (1), and except as provided in subsection (3), IC 26-1 applies to transactions bearing an appropriate relation to Indiana.

(3) If any of the following provisions specifies the applicable law, that provision governs, and a contrary agreement is effective only to the extent permitted by the law so specified:

- (a) IC 26-1-2-402.
- (b) IC 26-1-2.1-105 and IC 26-1-2.1-106.
- (c) IC 26-1-4-102.
- (d) IC 26-1-4.1-507.
- (e) IC 26-1-5.1-116.
- (f) IC 26-1-8.1-110.
- (g) IC 26-1-9.1-301 through IC 26-1-9.1-307.

SECTION 8. IC 26-1-3.1-103 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 103. (a) In IC 26-1-3.1:

(1) "Acceptor" means a drawee who has accepted a draft.

(2) "Consumer account" means an account established by an individual primarily for personal, family, or household purposes.

(3) "Consumer transaction" means a transaction in which an individual incurs an obligation primarily for personal, family, or household purposes.

~~(2)~~ (4) "Drawee" means a person ordered in a draft to make payment.

~~(3)~~ (5) "Drawer" means a person who signs or is identified in a draft as a person ordering payment.

~~(4)~~ (6) "Good faith" means honesty in fact and the observance of reasonable commercial standards of fair dealing.

~~(5)~~ (7) "Maker" means a person who signs or is identified in a note as a person undertaking to pay.

~~(6)~~ (8) "Order" means a written instruction to pay money signed by the person giving the instruction. The instruction may be addressed to any person, including the person giving the instruction, or to one (1) or more persons jointly or in the alternative but not in succession. An authorization to pay is not an order unless the person authorized to pay is also instructed to pay.

~~(7)~~ (9) "Ordinary care" in the case of a person engaged in business means observance of reasonable commercial standards prevailing

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in the area in which the person is located, with respect to the business in which the person is engaged. In the case of a bank that takes an instrument for processing for collection or payment by automated means, reasonable commercial standards do not require the bank to examine the instrument if the failure to examine does not violate the bank's prescribed procedures and the bank's procedures do not vary unreasonably from general banking usage not disapproved by IC 26-1-3.1 or IC 26-1-4.

~~(8)~~ **(10)** "Party" means a party to an instrument.

(11) "Principal obligor", with respect to an instrument, means the accommodated party or any other party to the instrument against whom a secondary obligor has recourse under this article.

~~(9)~~ **(12)** "Promise" means a written undertaking to pay money signed by the person undertaking to pay. An acknowledgment of an obligation by the obligor is not a promise unless the obligor also undertakes to pay the obligation.

~~(10)~~ **(13)** "Prove" with respect to a fact means to meet the burden of establishing the fact (IC 26-1-1-201(8)).

~~(11)~~ **(14)** "Remitter" means a person who purchases an instrument from its issuer if the instrument is payable to an identified person other than the purchaser.

(15) "Remotely-created consumer item" means an item that is drawn on a consumer account, is not created by the payor bank, and does not bear a handwritten signature purporting to be the signature of the drawer.

(16) "Secondary obligor", with respect to an instrument, means:

(A) an endorser or an accommodation party;

(B) a drawer having the obligation described in IC 26-1-3.1-414(d); or

(C) any other party to the instrument that has recourse against another party to the instrument under IC 26-1-3.1-116(b).

(b) Other definitions applying to IC 26-1-3.1 and the sections in which they appear are:

"Acceptance". IC 26-1-3.1-409.

"Accommodated party". IC 26-1-3.1-419.

"Accommodation party". IC 26-1-3.1-419.

"Alteration". IC 26-1-3.1-407.

"Anomalous endorsement". IC 26-1-3.1-205.

"Blank endorsement". IC 26-1-3.1-205.

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- 1 "Cashier's check". IC 26-1-3.1-104.
- 2 "Certificate of deposit". IC 26-1-3.1-104.
- 3 "Certified check". IC 26-1-3.1-409.
- 4 "Check". IC 26-1-3.1-104.
- 5 "Consideration". IC 26-1-3.1-303.
- 6 "Draft". IC 26-1-3.1-104.
- 7 "Holder in due course". IC 26-1-3.1-302.
- 8 "Incomplete instrument". IC 26-1-3.1-115.
- 9 "Endorsement". IC 26-1-3.1-204.
- 10 "Endorser". IC 26-1-3.1-204.
- 11 "Instrument". IC 26-1-3.1-104.
- 12 "Issue". IC 26-1-3.1-105.
- 13 "Issuer". IC 26-1-3.1-105.
- 14 "Negotiable instrument". IC 26-1-3.1-104.
- 15 "Negotiation". IC 26-1-3.1-201.
- 16 "Note". IC 26-1-3.1-104.
- 17 "Payable at a definite time". IC 26-1-3.1-108.
- 18 "Payable on demand". IC 26-1-3.1-108.
- 19 "Payable to bearer". IC 26-1-3.1-109.
- 20 "Payable to order". IC 26-1-3.1-109.
- 21 "Payment". IC 26-1-3.1-602.
- 22 "Person entitled to enforce". IC 26-1-3.1-301.
- 23 "Presentment". IC 26-1-3.1-501.
- 24 "Reacquisition". IC 26-1-3.1-207.
- 25 "Special endorsement". IC 26-1-3.1-205.
- 26 "Teller's check". IC 26-1-3.1-104.
- 27 "Transfer of an instrument". IC 26-1-3.1-203.
- 28 "Traveler's check". IC 26-1-3.1-104.
- 29 "Value". IC 26-1-3.1-303.
- 30 (c) The following definitions in other IC 26-1-4 apply to
- 31 IC 26-1-3.1:
- 32 ~~"Bank". IC 26-1-4-105.~~
- 33 "Banking day". IC 26-1-4-104.
- 34 "Clearing house". IC 26-1-4-104.
- 35 "Collecting bank". IC 26-1-4-105.
- 36 "Depository bank". IC 26-1-4-105.
- 37 "Documentary draft". IC 26-1-4-104.
- 38 "Intermediary bank". IC 26-1-4-105.
- 39 "Item". IC 26-1-4-104.
- 40 "Payor bank". IC 26-1-4-105.
- 41 "Suspends payments". IC 26-1-4-104.
- 42 (d) In addition, IC 26-1-1 contains general definitions and principles

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of construction and interpretation applicable throughout IC 26-1-3.1.

SECTION 9. IC 26-1-3.1-106 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 106. (a) Except as provided in this section, for the purposes of IC 26-1-3.1-104(a), a promise or order is unconditional unless it states:

- (1) an express condition to payment;
- (2) that the promise or order is subject to or governed by another ~~writing~~; **record**; or
- (3) that rights or obligations with respect to the promise or order are stated in another ~~writing~~; **record**.

A reference to another ~~writing~~ **record** does not of itself make the promise or order conditional.

(b) A promise or order is not made conditional:

- (1) by a reference to another ~~writing~~ **record** for a statement of rights with respect to collateral, prepayment, or acceleration; or
- (2) because payment is limited to resort to a particular fund or source.

(c) If a promise or order requires, as a condition to payment, a countersignature by a person whose specimen signature appears on the promise or order, the condition does not make the promise or order conditional for the purposes of IC 26-1-3.1-104(a). If the person whose specimen signature appears on an instrument fails to countersign the instrument, the failure to countersign is a defense to the obligation of the issuer, but the failure does not prevent a transferee of the instrument from becoming a holder of the instrument.

(d) If a promise or order at the time it is issued or first comes into possession of a holder contains a statement, required by applicable statutory or administrative law, to the effect that the rights of a holder or transferee are subject to claims or defenses that the issuer could assert against the original payee, the promise or order is not thereby made conditional for the purposes of IC 26-1-3.1-104(a), but if the promise or order is an instrument, there cannot be a holder in due course of the instrument.

SECTION 10. IC 26-1-3.1-116 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 116. (a) Except as otherwise provided in the instrument, two (2) or more persons who have the same liability on an instrument as makers, drawers, acceptors, endorsers who endorse as joint payees, or anomalous endorsers are jointly and severally liable in the capacity in which they sign.

(b) Except as provided in ~~IC 26-1-3.1-419(e)~~ **IC 26-1-3.1-419(f)** or by agreement of the affected parties, a party having joint and several liability who pays the instrument is entitled to receive from any party

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1 having the same joint and several liability contribution in accordance
2 with applicable law.

3 ~~(c) Discharge of one (1) party having joint and several liability by~~
4 ~~a person entitled to enforce the instrument does not affect the right~~
5 ~~under subsection (b) of a party having the same joint and several~~
6 ~~liability to receive contribution from the party discharged.~~

7 SECTION 11. IC 26-1-3.1-119 IS AMENDED TO READ AS
8 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 119. In an action for
9 breach of an obligation for which a third person is answerable over
10 pursuant to IC 26-1-3.1 or IC 26-1-4, the defendant may give the third
11 person ~~written~~ notice of the litigation **in a record**, and the person
12 notified may then give similar notice to any other person who is
13 answerable over. If the notice states:

14 (1) that the person notified may come in and defend; and

15 (2) that failure to do so will bind the person notified in an action
16 later brought by the person giving the notice as to any
17 determination of fact common to the two (2) litigations;
18 the person notified is so bound unless after reasonable receipt of the
19 notice the person notified does come in and defend.

20 SECTION 12. IC 26-1-3.1-305 IS AMENDED TO READ AS
21 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 305. (a) Except as
22 ~~stated in subsection (b);~~ **otherwise provided in this section**, the right
23 to enforce the obligation of a party to pay an instrument is subject to
24 the following:

25 (1) a defense of the obligor based on:

26 (A) infancy of the obligor to the extent it is a defense to a
27 simple contract;

28 (B) duress, lack of legal capacity, or illegality of the
29 transaction which, under other law, nullifies the obligation of
30 the obligor;

31 (C) fraud that induced the obligor to sign the instrument with
32 neither knowledge nor reasonable opportunity to learn of its
33 character or its essential terms; or

34 (D) discharge of the obligor in insolvency proceedings;

35 (2) a defense of the obligor stated in another section of
36 IC 26-1-3.1 or a defense of the obligor that would be available if
37 the person entitled to enforce the instrument were enforcing a
38 right to payment under a simple contract; and

39 (3) a claim in recoupment of the obligor against the original payee
40 of the instrument if the claim arose from the transaction that gave
41 rise to the instrument, but the claim of the obligor may be asserted
42 against a transferee of the instrument only to reduce the amount

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owing on the instrument at the time the action is brought.

(b) The right of a holder in due course to enforce the obligation of a party to pay the instrument is subject to defenses of the obligor stated in subsection (a)(1), but is not subject to defenses of the obligor stated in subsection (a)(2) or claims in recoupment stated in subsection (a)(3) against a person other than the holder.

(c) Except as stated in subsection (d), in an action to enforce the obligation of a party to pay the instrument, the obligor may not assert against the person entitled to enforce the instrument a defense, claim in recoupment, or claim to the instrument (IC 26-1-3.1-306) of another person, but the other person's claim to the instrument may be asserted by the obligor if the other person is joined in the action and personally asserts the claim against the person entitled to enforce the instrument. An obligor is not obliged to pay the instrument if the person seeking enforcement of the instrument does not have rights of a holder in due course and the obligor proves that the instrument is a lost or stolen instrument.

(d) In an action to enforce the obligation of an accommodation party to pay an instrument, the accommodation party may assert against the person entitled to enforce the instrument any defense or claim in recoupment under subsection (a) that the accommodated party could assert against the person entitled to enforce the instrument, except the defenses of discharge in insolvency proceedings, infancy, and lack of legal capacity.

(e) In a consumer transaction, if law other than this article requires that an instrument include a statement to the effect that the rights of a holder or transferee are subject to a claim or defense that the issuer could assert against the original payee, and the instrument does not include such a statement:

(1) the instrument has the same effect as if the instrument included such a statement;

(2) the issuer may assert against the holder or transferee all claims and defenses that would have been available if the instrument included such a statement; and

(3) the extent to which claims may be asserted against the holder or transferee is determined as if the instrument included such a statement.

(f) This section is subject to law other than this article that establishes a different rule for consumer transactions.

SECTION 13. IC 26-1-3.1-309 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 309. (a) A person not in possession of an instrument is entitled to enforce the instrument if:

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(1) the person ~~was in possession of the instrument and seeking to enforce the instrument:~~

(A) ~~was~~ entitled to enforce ~~it the instrument~~ when loss of possession occurred; or

(B) ~~has directly or indirectly acquired ownership of the instrument from a person who was entitled to enforce the instrument when loss of possession occurred;~~

(2) the loss of possession was not the result of a transfer by the person or a lawful seizure; and

(3) the person cannot reasonably obtain possession of the instrument because the instrument was destroyed, its whereabouts cannot be determined, or it is in the wrongful possession of an unknown person or a person that cannot be found or is not amenable to service of process.

(b) A person seeking enforcement of an instrument under subsection (a) must prove the terms of the instrument and the person's right to enforce the instrument. If that proof is made, IC 26-1-3.1-308 applies to the case as if the person seeking enforcement had produced the instrument. The court may not enter judgment in favor of the person seeking enforcement unless it finds that the person required to pay the instrument is adequately protected against loss that might occur by reason of a claim by another person to enforce the instrument. Adequate protection may be provided by any reasonable means.

SECTION 14. IC 26-1-3.1-312 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 312. (a) In this section:

(1) "Check" means a cashier's check, teller's check, or certified check.

(2) "Claimant" means a person who claims the right to receive the amount of a cashier's check, teller's check, or certified check that was lost, destroyed, or stolen.

(3) "Declaration of loss" means a ~~written~~ statement, made ~~in a record~~ under penalty of perjury, to the effect that (i) the declarer lost possession of a check, (ii) the declarer is the drawer or payee of the check, in the case of a certified check, or the remitter or payee of the check, in the case of a cashier's check or teller's check, (iii) the loss of possession was not the result of a transfer by the declarer or a lawful seizure, and (iv) the declarer cannot reasonably obtain possession of the check because the check was destroyed, its whereabouts cannot be determined, or it is in the wrongful possession of an unknown person or a person that cannot be found or is not amenable to service of process.

(4) "Obligated bank" means the issuer of a cashier's check or

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teller's check or the acceptor of a certified check.

(b) A claimant may assert a claim to the amount of a check by a communication to the obligated bank describing the check with reasonable certainty and requesting payment of the amount of the check if (i) the claimant is the drawer or payee of a certified check or the remitter or payee of a cashier's check or teller's check, (ii) the communication contains or is accompanied by a declaration of loss of the claimant with respect to the check, (iii) the communication is received at a time and in a manner affording the bank a reasonable time to act on it before the check is paid, and (iv) the claimant provides reasonable identification if requested by the obligated bank. Delivery of a declaration of loss is a warranty of the truth of the statements made in the declaration. If a claim is asserted in compliance with this subsection, the following rules apply:

(1) The claim becomes enforceable at the later of (i) the time the claim is asserted, or (ii) ninety (90) days after the date of the check, in the case of a cashier's check or teller's check, or ninety (90) days after the date of the acceptance, in the case of a certified check.

(2) Until the claim becomes enforceable, the claim has no legal effect and the obligated bank may pay the check or, in the case of a teller's check, may permit the drawee to pay the check. Payment to a person entitled to enforce the check discharges all liability of the obligated bank with respect to the check.

(3) If the claim becomes enforceable before the check is presented for payment, the obligated bank is not obliged to pay the check.

(4) When the claim becomes enforceable, the obligated bank becomes obliged to pay the amount of the check to the claimant if payment of the check has not been made to a person entitled to enforce the check. Subject to IC 26-1-4-302(a)(1), payment to the claimant discharges all liability of the obligated bank with respect to the check.

(c) If the obligated bank pays the amount of the check to a claimant under subsection (b)(4) and the check is presented for payment by a person having rights of a holder in due course, the claimant is obliged to (i) refund the payment to the obligated bank if the check is paid, or (ii) pay the amount of the check to the person having rights of a holder in due course if the check is dishonored.

(d) If a claimant has the right to assert a claim under subsection (b) and is also a person entitled to enforce a cashier's check, teller's check, or certified check which is lost, destroyed, or stolen, the claimant may assert rights with respect to the check either under this section or

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1 IC 26-1-3.1-309.

2 SECTION 15. IC 26-1-3.1-416 IS AMENDED TO READ AS
3 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 416. (a) A person who
4 transfers an instrument for consideration warrants to the transferee and,
5 if the transfer is by endorsement, to any subsequent transferee that:

- 6 (1) the warrantor is a person entitled to enforce the instrument;
7 (2) all signatures on the instrument are authentic and authorized;
8 (3) the instrument has not been altered;
9 (4) the instrument is not subject to a defense or claim in
10 recoupment of any party which can be asserted against the
11 warrantor; ~~and~~

- 12 (5) the warrantor has no knowledge of any insolvency proceeding
13 commenced with respect to the maker or acceptor or, in the case
14 of an unaccepted draft, the drawer; **and**

- 15 **(6) with respect to a remotely-created consumer item, the**
16 **person on whose account the item is drawn authorized the**
17 **issuance of the item in the amount for which the item is**
18 **drawn.**

19 (b) A person to whom the warranties under subsection (a) are made
20 and who took the instrument in good faith may recover from the
21 warrantor as damages for breach of warranty an amount equal to the
22 loss suffered as a result of the breach, but not more than the amount of
23 the instrument plus expenses and loss of interest incurred as a result of
24 the breach.

25 (c) The warranties stated in subsection (a) cannot be disclaimed
26 with respect to checks. Unless notice of a claim for breach of warranty
27 is given to the warrantor within thirty (30) days after the claimant has
28 reason to know of the breach and the identity of the warrantor, the
29 liability of the warrantor under subsection (b) is discharged to the
30 extent of any loss caused by the delay in giving notice of the claim.

31 (d) A cause of action for breach of warranty under this section
32 accrues when the claimant has reason to know of the breach.

33 SECTION 16. IC 26-1-3.1-417 IS AMENDED TO READ AS
34 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 417. (a) If an
35 unaccepted draft is presented to the drawee for payment or acceptance
36 and the drawee pays or accepts the draft (i) the person obtaining
37 payment or acceptance, at the time of presentment, and (ii) a previous
38 transferor of the draft, at the time of transfer, warrant to the drawee
39 making payment or accepting the draft in good faith that:

- 40 (1) the warrantor is, or was, at the time the warrantor transferred
41 the draft, a person entitled to enforce the draft or authorized to
42 obtain payment or acceptance of the draft on behalf of a person

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entitled to enforce the draft;

(2) the draft has not been altered; ~~and~~

(3) the warrantor has no knowledge that the signature of the drawer of the draft is unauthorized; ~~and~~

(4) with respect to a remotely-created consumer item, the person on whose account the item is drawn authorized the issuance of the item in the amount for which the item is drawn.

(b) A drawee making payment may recover from any warrantor damages for breach of warranty equal to the amount paid by the drawee less the amount the drawee received or is entitled to receive from the drawer because of the payment. In addition, the drawee is entitled to compensation for expenses and loss of interest resulting from the breach. The right of the drawee to recover damages under this subsection is not affected by any failure of the drawee to exercise ordinary care in making payment. If the drawee accepts the draft, breach of warranty is a defense to the obligation of the acceptor. If the acceptor makes payment with respect to the draft, the acceptor is entitled to recover from any warrantor for breach of warranty the amounts stated in this subsection.

(c) If a drawee asserts a claim for breach of warranty under subsection (a) based on an unauthorized endorsement of the draft or an alteration of the draft, the warrantor may defend by proving that the endorsement is effective under IC 26-1-3.1-404 or IC 26-1-3.1-405 or the drawer is precluded under IC 26-1-3.1-406 or IC 26-1-4-406 from asserting against the drawee the unauthorized endorsement or alteration.

(d) If (i) a dishonored draft is presented for payment to the drawer or an endorser or (ii) any other instrument is presented for payment to a party obliged to pay the instrument, and (iii) payment is received, the following rules apply:

(1) The person obtaining payment and a prior transferor of the instrument warrant to the person making payment in good faith that the warrantor is, or was, at the time the warrantor transferred the instrument, a person entitled to enforce the instrument or authorized to obtain payment on behalf of a person entitled to enforce the instrument.

(2) The person making payment may recover from any warrantor for breach of warranty an amount equal to the amount paid plus expenses and loss of interest resulting from the breach.

(e) The warranties stated in subsections (a) and (d) cannot be disclaimed with respect to checks. Unless notice of a claim for breach

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1 of warranty is given to the warrantor within thirty (30) days after the
 2 claimant has reason to know of the breach and the identity of the
 3 warrantor, the liability of the warrantor under subsection (b) or (d) is
 4 discharged to the extent of any loss caused by the delay in giving notice
 5 of the claim.

6 (f) A cause of action for breach of warranty under this section
 7 accrues when the claimant has reason to know of the breach.

8 SECTION 17. IC 26-1-3.1-419 IS AMENDED TO READ AS
 9 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 419. (a) If an
 10 instrument is issued for value given for the benefit of a party to the
 11 instrument ("accommodated party") and another party to the instrument
 12 ("accommodation party") signs the instrument for the purpose of
 13 incurring liability on the instrument without being a direct beneficiary
 14 of the value given for the instrument, the instrument is signed by the
 15 accommodation party "for accommodation".

16 (b) An accommodation party may sign the instrument as maker,
 17 drawer, acceptor, or endorser and, subject to subsection (d), is obliged
 18 to pay the instrument in the capacity in which the accommodation party
 19 signs. The obligation of an accommodation party may be enforced
 20 notwithstanding any statute of frauds and whether or not the
 21 accommodation party receives consideration for the accommodation.

22 (c) A person signing an instrument is presumed to be an
 23 accommodation party and there is notice that the instrument is signed
 24 for accommodation if the signature is an anomalous endorsement or is
 25 accompanied by words indicating that the signer is acting as surety or
 26 guarantor with respect to the obligation of another party to the
 27 instrument. Except as provided in IC 26-1-3.1-605, the obligation of an
 28 accommodation party to pay the instrument is not affected by the fact
 29 that the person enforcing the obligation had notice when the instrument
 30 was taken by that person that the accommodation party signed the
 31 instrument for accommodation.

32 (d) If the signature of a party to an instrument is accompanied by
 33 words indicating unambiguously that the party is guaranteeing
 34 collection rather than payment of the obligation of another party to the
 35 instrument, the signer is obliged to pay the amount due on the
 36 instrument to a person entitled to enforce the instrument only if:

- 37 (1) execution of judgment against the other party has been
- 38 returned unsatisfied;
- 39 (2) the other party is insolvent or in an insolvency proceeding;
- 40 (3) the other party cannot be served with process; or
- 41 (4) it is otherwise apparent that payment cannot be obtained from
- 42 the other party.

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(e) If the signature of a party to an instrument is accompanied by words indicating that the party guarantees payment or the signer signs the instrument as an accommodation party in some other manner that does not unambiguously indicate an intention to guarantee collection rather than payment, the signer is obliged to pay the amount due on the instrument to a person entitled to enforce the instrument in the same circumstances as the accommodated party would be obliged, without prior resort to the accommodated party by the person entitled to enforce the instrument.

~~(e)~~ (f) An accommodation party who pays the instrument is entitled to reimbursement from the accommodated party and is entitled to enforce the instrument against the accommodated party. **In proper circumstances, an accommodation party may obtain relief that requires the accommodated party to perform its obligations on the instrument.** An accommodated party ~~who~~ **that** pays the instrument has no right of recourse against, and is not entitled to contribution from, an accommodation party.

SECTION 18. IC 26-1-3.1-602 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 602. (a) Subject to subsection ~~(b)~~; **(e)**, an instrument is paid to the extent payment is made:

- (1) by or on behalf of a party obliged to pay the instrument; and
- (2) to a person entitled to enforce the instrument.

(b) Subject to subsection (e), a note is paid to the extent payment is made by or on behalf of a party obliged to pay the note to a person that formerly was entitled to enforce the note only if at the time of the payment the party obliged to pay has not received adequate notification that the note has been transferred and that payment is to be made to the transferee. A notification is adequate only if it is signed by the transferor or the transferee, reasonably identifies the transferred note, and provides an address at which payments subsequently are to be made. Upon request, a transferee shall seasonably furnish reasonable proof that the note has been transferred. Unless the transferee complies with the request, a payment to the person that formerly was entitled to enforce the note is effective for purposes of subsection (c) even if the party obliged to pay the note has received a notification under this subsection.

(c) Subject to subsection (e), to the extent of the a payment under subsections (a) and (b), the obligation of the party obliged to pay the instrument is discharged even though payment is made with knowledge of a claim to the instrument under IC 26-1-3.1-306 by another person.

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(d) Subject to subsection (e), a transferee, or any party that has acquired rights in the instrument directly or indirectly from a transferee, including any such party that has rights as a holder in due course, is considered to have notice of any payment that is made under subsection (b) after the date that the note is transferred to the transferee but before the party obliged to pay the note receives adequate notification of the transfer.

~~(b)~~ (e) The obligation of a party to pay the instrument is not discharged under ~~subsection~~ **subsections (a) through (d)** if:

(1) a claim to the instrument under IC 26-1-3.1-306 is enforceable against the party receiving payment and (i) payment is made with knowledge by the payor that payment is prohibited by injunction or similar process of a court of competent jurisdiction, or (ii) in the case of an instrument other than a cashier's check, teller's check, or certified check, the party making payment accepted, from the person having a claim to the instrument, indemnity against loss resulting from refusal to pay the person entitled to enforce the instrument; or

(2) the person making payment knows that the instrument is a stolen instrument and pays a person it knows is in wrongful possession of the instrument.

(f) As used in this section, "signed", with respect to a record that is not a writing, includes the attachment to or logical association with the record of an electronic symbol, sound, or process with the present intent to adopt or accept the record.

SECTION 19. IC 26-1-3.1-604 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 604. (a) A person entitled to enforce an instrument, with or without consideration, may discharge the obligation of a party to pay the instrument:

(1) by an intentional voluntary act, such as surrender of the instrument to the party, destruction, mutilation, or cancellation of the instrument, cancellation or striking out of the party's signature, or the addition of words to the instrument indicating discharge; or
(2) by agreeing not to sue or otherwise renouncing rights against the party by a signed ~~writing~~ **record**.

(b) Cancellation or striking out of an endorsement under subsection (a) does not affect the status and rights of a party derived from the endorsement.

(c) As used in this section, "signed", with respect to a record that is not a writing, includes the attachment to or logical association with the record of an electronic symbol, sound, or process with the present intent to adopt or accept the record.

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1 SECTION 20. IC 26-1-3.1-605 IS AMENDED TO READ AS
 2 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 605. (a) In this section;
 3 the term "endorser" includes a drawer having the obligation described
 4 in IC 26-1-3.1-414(d):

5 (b) Discharge, under IC 26-1-3.1-604, of the obligation of a party to
 6 pay an instrument does not discharge the obligation of an endorser or
 7 accommodation party having a right of recourse against the discharged
 8 party:

9 (c) (a) If a person entitled to enforce an instrument agrees, with or
 10 without consideration, to an extension of the due date of the obligation
 11 of a party to pay the instrument, the extension discharges an endorser
 12 or accommodation party having a right of recourse against the party
 13 whose obligation is extended to the extent the endorser or
 14 accommodation party proves that the extension caused loss to the
 15 endorser or accommodation party with respect to the right of recourse:

16 (d) If a person entitled to enforce an instrument agrees, with or
 17 without consideration, to a material modification of the obligation of
 18 a party other than an extension of the due date, the modification
 19 discharges the obligation of an endorser or accommodation party
 20 having a right of recourse against the person whose obligation is
 21 modified to the extent the modification causes loss to the endorser or
 22 accommodation party with respect to the right of recourse. The loss
 23 suffered by the endorser or accommodation party as a result of the
 24 modification is equal to the amount of the right of recourse unless the
 25 person enforcing the instrument proves that no loss was caused by the
 26 modification or that the loss caused by the modification was an amount
 27 less than the amount of the right of recourse:

28 (e) If the obligation of a party to pay an instrument is secured by an
 29 interest in collateral and a person entitled to enforce the instrument
 30 impairs the value of the interest in collateral, the obligation of an
 31 endorser or accommodation party having a right of recourse against the
 32 obligor is discharged to the extent of the impairment. The value of an
 33 interest in collateral is impaired to the extent:

34 (1) the value of the interest is reduced to an amount less than the
 35 amount of the right of recourse of the party asserting discharge;
 36 or

37 (2) the reduction in value of the interest causes an increase in the
 38 amount by which the amount of the right of recourse exceeds the
 39 value of the interest:

40 The burden of proving impairment is on the party asserting discharge:

41 (f) If the obligation of a party is secured by an interest in collateral
 42 not provided by an accommodation party and a person entitled to

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enforce the instrument impairs the value of the interest in collateral; the obligation of any party who is jointly and severally liable with respect to the secured obligation is discharged to the extent the impairment causes the party asserting discharge to pay more than that party would have been obliged to pay, taking into account rights of contribution; if impairment had not occurred. If the party asserting discharge is an accommodation party not entitled to discharge under subsection (e), the party is considered to have a right to contribution based on joint and several liability rather than a right to reimbursement. The burden of proving impairment is on the party asserting discharge.

(g) Under subsection (e) or (f), impairing value of an interest in collateral includes:

- (1) failure to obtain or maintain perfection or recordation of the interest in collateral;
- (2) release of collateral without substitution of collateral of equal value;
- (3) failure to perform a duty to preserve the value of collateral owed, under IC 26-1-9.1 or other law, to a debtor or surety or other person secondarily liable; or
- (4) failure to comply with applicable law in disposing of collateral.

(h) An accommodation party is not discharged under subsection (c), (d), or (e) unless the person entitled to enforce the instrument knows of the accommodation or has notice under IC 26-1-3.1-419(c) that the instrument was signed for accommodation.

(i) A party is not discharged under this section if:

- (1) the party asserting discharge consents to the event or conduct that is the basis of the discharge; or
- (2) the instrument or a separate agreement of the party provides for waiver of discharge under this section either specifically or by general language indicating that parties waive defenses based on suretyship or impairment of collateral.

releases the obligation of a principal obligor in whole or in part, and another party to the instrument is a secondary obligor with respect to the obligation of that principal obligor, the following rules apply:

- (1) Any obligations of the principal obligor to the secondary obligor with respect to any previous payment by the secondary obligor are not affected. Unless the terms of the release preserve the secondary obligor's recourse, the principal obligor is discharged, to the extent of the release, from any other duties to the secondary obligor under this

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article.

(2) Unless the terms of the release provide that the person entitled to enforce the instrument retains the right to enforce the instrument against the secondary obligor, the secondary obligor is discharged to the same extent as the principal obligor from any unperformed part of its obligation on the instrument. If the instrument is a check and the obligation of the secondary obligor is based on an endorsement of the check, the secondary obligor is discharged without regard to the language or circumstances of the discharge or other release.

(3) If the secondary obligor is not discharged under subdivision (2), the secondary obligor is discharged to the extent of the value of the consideration for the release, and to the extent that the release would otherwise cause the secondary obligor a loss.

(b) If a person entitled to enforce an instrument grants a principal obligor an extension of the time at which one (1) or more payments are due on the instrument, and another party to the instrument is a secondary obligor with respect to the obligation of that principal obligor, the following rules apply:

(1) Any obligations of the principal obligor to the secondary obligor with respect to any previous payment by the secondary obligor are not affected. Unless the terms of the extension preserve the secondary obligor's recourse, the extension correspondingly extends the time for performance of any other duties owed to the secondary obligor by the principal obligor under this article.

(2) The secondary obligor is discharged to the extent that the extension would otherwise cause the secondary obligor a loss.

(3) To the extent that the secondary obligor is not discharged under subdivision (2), the secondary obligor may perform its obligations to a person entitled to enforce the instrument as if the time for payment had not been extended or, unless the terms of the extension provide that the person entitled to enforce the instrument retains the right to enforce the instrument against the secondary obligor as if the time for payment had not been extended, may treat the time for performance of its obligations as having been extended correspondingly.

(c) If a person entitled to enforce an instrument agrees, with or without consideration, to a modification of the obligation of a

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principal obligor other than a complete or partial release or an extension of the due date, and another party to the instrument is a secondary obligor with respect to the obligation of that principal obligor, the following rules apply:

(1) Any obligations of the principal obligor to the secondary obligor with respect to any previous payment by the secondary obligor are not affected. The modification correspondingly modifies any other duties owed to the secondary obligor by the principal obligor under this article.

(2) The secondary obligor is discharged from any unperformed part of its obligation to the extent that the modification would otherwise cause the secondary obligor a loss.

(3) To the extent that the secondary obligor is not discharged under subdivision (2), the secondary obligor may satisfy its obligation on the instrument as if the modification had not occurred, or treat its obligation on the instrument as having been modified correspondingly.

(d) If the obligation of a principal obligor is secured by an interest in collateral, another party to the instrument is a secondary obligor with respect to that obligation, and a person entitled to enforce the instrument impairs the value of the interest in collateral, the obligation of the secondary obligor is discharged to the extent of the impairment. The value of an interest in collateral is impaired to the extent the value of the interest is reduced to an amount less than the amount of the recourse of the secondary obligor, or the reduction in value of the interest causes an increase in the amount by which the amount of the recourse exceeds the value of the interest. For purposes of this subsection, impairing the value of an interest in collateral includes failure to obtain or maintain perfection or recordation of the interest in collateral, release of collateral without substitution of collateral of equal value or equivalent reduction of the underlying obligation, failure to perform a duty to preserve the value of collateral owed, under IC 26-1-9.1 or other law, to a debtor or other person secondarily liable, and failure to comply with applicable law in disposing of or otherwise enforcing the interest in collateral.

(e) A secondary obligor is not discharged under subsection (a)(3), (b), (c), or (d) unless the person entitled to enforce the instrument knows that the person is a secondary obligor or has notice under IC 26-1-3.1-419(c) that the instrument was signed for accommodation.

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(f) A secondary obligor is not discharged under this section if the secondary obligor consents to the event or conduct that is the basis of the discharge, or the instrument or a separate agreement of the party provides for waiver of discharge under this section specifically or by general language indicating that parties waive defenses based on suretyship or impairment of collateral. Unless the circumstances indicate otherwise, consent by the principal obligor to an act that would lead to a discharge under this section constitutes consent to that act by the secondary obligor if the secondary obligor controls the principal obligor or deals with the person entitled to enforce the instrument on behalf of the principal obligor.

(g) A release or extension preserves a secondary obligor's recourse if the terms of the release or extension provide that:

- (1) the person entitled to enforce the instrument retains the right to enforce the instrument against the secondary obligor; and
- (2) the recourse of the secondary obligor continues as if the release or extension had not been granted.

(h) Except as otherwise provided in subsection (i), a secondary obligor asserting discharge under this section has the burden of persuasion both with respect to the occurrence of the acts alleged to harm the secondary obligor and loss or prejudice caused by those acts.

(i) If the secondary obligor demonstrates prejudice caused by an impairment of its recourse, and the circumstances of the case indicate that the amount of loss is not reasonably susceptible of calculation or requires proof of facts that are not ascertainable, it is presumed that the act impairing recourse caused a loss or impairment equal to the liability of the secondary obligor on the instrument. In that event, the burden of persuasion as to any lesser amount of the loss is on the person entitled to enforce the instrument.

SECTION 21. IC 26-1-4-104, AS AMENDED BY P.L.143-2007, SECTION 22, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 104. (a) In IC 26-1-4, unless the context otherwise requires:

- (1) "Account" means any deposit or credit account with a bank, including a demand, time, savings, passbook, share draft, or like account, other than an account evidenced by a certificate of deposit.
- (2) "Afternoon" means the period of a day between noon and

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midnight.

(3) "Banking day" means the part of a day on which a bank is open to the public for carrying on substantially all of its banking functions, but does not include Saturday, Sunday, or a legal holiday.

(4) "Clearing house" means an association of banks or other payors regularly clearing items.

(5) "Customer" means a person having an account with a bank or for whom a bank has agreed to collect items, including a bank that maintains an account at another bank.

(6) "Documentary draft" means a draft to be presented for acceptance or payment if specified documents, certificated securities (IC 26-1-8.1-102), or instructions for uncertificated securities (IC 26-1-8.1-102) or other certificates, statements, or the like are to be received by the drawee or other payor before acceptance or payment of the draft.

(7) "Draft" means a draft (as defined in IC 26-1-3.1-104) or an item, other than an instrument, that is an order.

(8) "Drawee" means a person ordered in a draft to make payment.

(9) **"Good faith" means honesty in fact in the conduct or transaction concerned.**

(10) "Item" means an instrument or a promise or order to pay money handled by a bank for collection or payment. The term does not include a payment order governed by IC 26-1-4.1 or a credit or debit card slip.

~~(10)~~ (11) "Midnight deadline" with respect to a bank is midnight on its next banking day following the banking day on which it receives the relevant item or notice or from which the time for taking action commences to run, whichever is later.

~~(11)~~ (12) "Settle" means to pay in cash, by clearing-house settlement, in a charge or credit, or by remittance, or otherwise as instructed. A settlement may be either provisional or final.

~~(12)~~ (13) "Suspends payments" with respect to a bank means that it has been closed by order of the supervisory authorities, that a public officer has been appointed to take it over, or that it ceases or refuses to make payments in the ordinary course of business.

(b) Other definitions applying to IC 26-1-4 and the sections in which they appear are:

"Agreement for electronic presentment". IC 26-1-4-110.

"Bank". IC 26-1-4-105.

"Collecting bank". IC 26-1-4-105.

"Depository bank". IC 26-1-4-105.

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1 "Intermediary bank". IC 26-1-4-105.

2 "Payor bank". IC 26-1-4-105.

3 "Presenting bank". IC 26-1-4-105.

4 "Presentment notice". IC 26-1-4-110.

5 (c) "Control" as provided in IC 26-1-7-106 and the following
6 definitions in IC 26-1-3.1 apply to IC 26-1-4:

7 "Acceptance". IC 26-1-3.1-409.

8 "Alteration". IC 26-1-3.1-407.

9 "Cashier's check". IC 26-1-3.1-104.

10 "Certificate of deposit". IC 26-1-3.1-104.

11 "Certified check". IC 26-1-3.1-409.

12 "Check". IC 26-1-3.1-104.

13 "Holder in due course". IC 26-1-3.1-302.

14 "Instrument". IC 26-1-3.1-104.

15 "Notice of dishonor". IC 26-1-3.1-503.

16 "Order". IC 26-1-3.1-103.

17 "Ordinary care". IC 26-1-3.1-103.

18 "Person entitled to enforce". IC 26-1-3.1-301.

19 "Presentment". IC 26-1-3.1-501.

20 "Promise". IC 26-1-3.1-103.

21 "Prove". IC 26-1-3.1-103.

22 **"Record". IC 26-1-1-201(33b).**

23 **"Remotely-created consumer item". IC 26-1-3.1-103.**

24 "Teller's check". IC 26-1-3.1-104.

25 "Unauthorized signature". IC 26-1-3.1-403.

26 (d) In addition, IC 26-1-1 contains general definitions and principles
27 of construction and interpretation applicable throughout IC 26-1-4.

28 SECTION 22. IC 26-1-4-207 IS AMENDED TO READ AS
29 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 207. (a) A customer or
30 collecting bank that transfers an item and receives a settlement or other
31 consideration warrants to the transferee and to any subsequent
32 collecting bank that:

33 (1) the warrantor is a person entitled to enforce the item;

34 (2) all signatures on the item are authentic and authorized;

35 (3) the item has not been altered;

36 (4) the item is not subject to a defense or claim in recoupment
37 (IC 26-1-3.1-305(a)) of any party that can be asserted against the
38 warrantor; ~~and~~

39 (5) the warrantor has no knowledge of any insolvency proceeding
40 commenced with respect to the maker or acceptor or, in the case
41 of an unaccepted draft, the drawer; **and**

42 **(6) with respect to a remotely-created consumer item, the**

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1 **person on whose account the item is drawn authorized the**
 2 **issuance of the item in the amount for which the item is**
 3 **drawn.**

4 (b) If an item is dishonored, a customer or collecting bank
 5 transferring the item and receiving settlement or other consideration is
 6 obliged to pay the amount due on the item:

7 (1) according to the terms of the item at the time it was
 8 transferred; or

9 (2) if the transfer was of an incomplete item, according to its
 10 terms when completed as stated in IC 26-1-3.1-115 and
 11 IC 26-1-3.1-407.

12 The obligation of a transferor is owed to the transferee and to any
 13 subsequent collecting bank that takes the item in good faith. A
 14 transferor cannot disclaim its obligation under this subsection by an
 15 endorsement stating that it is made "without recourse" or otherwise
 16 disclaiming liability.

17 (c) A person to whom the warranties under subsection (a) are made
 18 and who took the item in good faith may recover from the warrantor as
 19 damages for breach of warranty an amount equal to the loss suffered as
 20 a result of the breach, but not more than the amount of the item plus
 21 expenses and loss of interest incurred as a result of the breach.

22 (d) The warranties stated in subsection (a) cannot be disclaimed
 23 with respect to checks. Unless notice of a claim for breach of warranty
 24 is given to the warrantor within thirty (30) days after the claimant has
 25 reason to know of the breach and the identity of the warrantor, the
 26 warrantor is discharged to the extent of any loss caused by the delay in
 27 giving notice of the claim.

28 (e) A cause of action for breach of warranty under this section
 29 accrues when the claimant has reason to know of the breach.

30 SECTION 23. IC 26-1-4-208 IS AMENDED TO READ AS
 31 FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 208. (a) If an
 32 unaccepted draft is presented to the drawee for payment or acceptance
 33 and the drawee pays or accepts the draft, (i) the person obtaining
 34 payment or acceptance, at the time of presentment, and (ii) a previous
 35 transferor of the draft, at the time of transfer, warrant to the drawee that
 36 pays or accepts the draft in good faith that:

37 (1) the warrantor is, or was, at the time the warrantor transferred
 38 the draft, a person entitled to enforce the draft or authorized to
 39 obtain payment or acceptance of the draft on behalf of a person
 40 entitled to enforce the draft;

41 (2) the draft has not been altered; ~~and~~

42 (3) the warrantor has no knowledge that the signature of the

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purported drawer of the draft is unauthorized; **and**
(4) with respect to a remotely-created consumer item, the
person on whose account the item is drawn authorized the
issuance of the item in the amount for which the item is
drawn.

(b) A drawee making payment may recover from a warrantor damages for breach of warranty equal to the amount paid by the drawee less the amount the drawee received or is entitled to receive from the drawer because of the payment. In addition, the drawee is entitled to compensation for expenses and loss of interest resulting from the breach. The right of the drawee to recover damages under this subsection is not affected by any failure of the drawee to exercise ordinary care in making payment. If the drawee accepts the draft:

(1) breach of warranty is a defense to the obligation of the acceptor; and

(2) if the acceptor makes payment with respect to the draft, the acceptor is entitled to recover from a warrantor for breach of warranty the amounts stated in this subsection.

(c) If a drawee asserts a claim for breach of warranty under subsection (a) based on an unauthorized endorsement of the draft or an alteration of the draft, the warrantor may defend by proving that the endorsement is effective under IC 26-1-3.1-404 or IC 26-1-3.1-405 or the drawer is precluded under IC 26-1-3.1-406 or IC 26-1-4-406 from asserting against the drawee the unauthorized endorsement or alteration.

(d) If:

(1) a dishonored draft is presented for payment to the drawer or an endorser; or

(2) any other item is presented for payment to a party obliged to pay the item;

and the item is paid, the person obtaining payment and a prior transferor of the item warrant to the person making payment in good faith that the warrantor is, or was, at the time the warrantor transferred the item, a person entitled to enforce the item or authorized to obtain payment on behalf of a person entitled to enforce the item. The person making payment may recover from any warrantor for breach of warranty an amount equal to the amount paid plus expenses and loss of interest resulting from the breach.

(e) The warranties stated in subsections (a) and (d) cannot be disclaimed with respect to checks. Unless notice of a claim for breach of warranty is given to the warrantor within thirty (30) days after the claimant has reason to know of the breach and the identity of the

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warrantor, the warrantor is discharged to the extent of any loss caused by the delay in giving notice of the claim.

(f) A cause of action for breach of warranty under this section accrues when the claimant has reason to know of the breach.

SECTION 24. IC 26-1-4-212 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 212. (a) Unless otherwise instructed, a collecting bank may present an item not payable by, through, or at a bank by sending to the party to accept or pay a **written record providing** notice that the bank holds the item for acceptance or payment. The notice must be sent in time to be received on or before the day when presentment is due and the bank must meet any requirement of the party to accept or pay under IC 26-1-3.1-501 by the close of the bank's next banking day after it knows of the requirement.

(b) If presentment is made by notice and payment, acceptance, or request for compliance with a requirement under IC 26-1-3.1-501 is not received by the close of business on the day after maturity or, in the case of demand items, by the close of business on the third banking day after notice was sent, the presenting bank may treat the item as dishonored and charge any drawer or endorser by sending it notice of the facts.

SECTION 25. IC 26-1-4-301 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. ~~31~~ **301**. (a) If a payor bank settles for a demand item other than a documentary draft presented otherwise than for immediate payment over the counter before midnight of the banking day of receipt, the payor bank may revoke the settlement and recover the settlement if, before it has made final payment and before its midnight deadline, it:

(1) returns the item; ~~or~~

(2) returns an image of the item, if the party to which the return is made has entered into an agreement to accept an image as a return of the item and the image is returned in accordance with that agreement; or

~~(2)~~ **(3) sends a record providing** notice of dishonor or nonpayment if the item is unavailable for return.

(b) If a demand item is received by a payor bank for credit on its books, it may return the item or send notice of dishonor and may revoke any credit given or recover the amount thereof withdrawn by its customer, if it acts within the time limit and in the manner specified in subsection (a).

(c) Unless previous notice of dishonor has been sent, an item is dishonored at the time when for purposes of dishonor it is returned or

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notice sent in accordance with this section.

(d) An item is returned:

(1) as to an item received through a clearing-house, when it is delivered to the presenting or last collecting bank or to the clearing-house or is sent or delivered in accordance with its rules; or

(2) in all other cases, when it is sent or delivered to the bank's customer or transferor or pursuant to instructions.

SECTION 26. IC 26-1-4-403 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2010]: Sec. 403. (a) A customer or any person authorized to draw on the account if there is more than one (1) person may stop payment of any item drawn on the customer's account or close the account by an order to the bank describing the item or account with reasonable certainty received at a time and in a manner that affords the bank a reasonable opportunity to act on it before any action by the bank with respect to the item described in IC 26-1-4-303. If the signature of more than one (1) person is required to draw on an account, any of these persons may stop payment or close the account.

(b) A stop-payment order is effective for six (6) months, but it lapses after fourteen (14) calendar days if the original order was oral and was not confirmed in ~~writing~~ **a record** within that period. A stop-payment order may be renewed for additional six (6) month periods by a ~~writing~~ **record** given to the bank within a period during which the stop-payment order is effective.

(c) The burden of establishing the fact and amount of loss resulting from the payment of an item contrary to a stop-payment order or order to close an account is on the customer. The loss from payment of an item contrary to a stop-payment order may include damages for dishonor of subsequent items under IC 26-1-4-402.

SECTION 27. IC 26-2-5.5 IS ADDED TO THE INDIANA CODE AS A **NEW** CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 5.5. Construction or Design Contract; Choice of Laws Provision Not Enforceable

Sec. 1. This chapter applies only to contracts entered into, extended, or renewed after June 30, 2009.

Sec. 2. Except as provided in section 3 of this chapter, if a construction or design contract purports to choose the laws of a jurisdiction other than Indiana to govern the contract, the choice is not enforceable.

Sec. 3. If any of the following provisions specifies the applicable

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law, that provision governs to the extent it conflicts with section 2 of this chapter:

- (1) IC 26-1-2-402.
- (2) IC 26-1-2.1-105 and IC 26-1-2.1-106.
- (3) IC 26-1-4-102.
- (4) IC 26-1-4.1-507.
- (5) IC 26-1-5.1-116.
- (6) IC 26-1-8.1-110.
- (7) IC 26-1-9.1-301 through IC 26-1-9.1-307.

SECTION 28. THE FOLLOWING ARE REPEALED [EFFECTIVE JULY 1, 2009]: IC 5-28-17; IC 5-28-18; IC 5-28-19; IC 5-28-20.

SECTION 29. [EFFECTIVE UPON PASSAGE] (a) As used in this SECTION, "authority" refers to the Indiana housing and community development authority established by IC 5-20-1-3.

(b) As used in this SECTION, "corporation" refers to the Indiana economic development corporation established by IC 5-28-3-1.

(c) The corporation and the authority shall cooperate with the authority to transfer the following from administration by the corporation to administration by the authority:

- (1) Small business development under IC 5-28-17 (before its repeal by this act).
- (2) The microenterprise partnership program fund under IC 5-28-18 (before its repeal by this act).
- (3) The microenterprise partnership program under IC 5-28-19 (before its repeal by this act).
- (4) The small and minority business assistance program under IC 5-28-20 (before its repeal by this act).

(d) After June 30, 2009, and before July 15, 2009, the corporation shall transfer money in microenterprise fund under IC 5-28-18 (before its repeal by this act) to the authority for deposit in the microenterprise partnership program fund under IC 5-20-7 (as added by this act). In addition, on or before July 15, 2009, the corporation shall transfer to the authority all the accounting records and related information pertaining to the microenterprise partnership program fund under IC 5-28-18 (before its repeal by this act).

(e) After June 30, 2009, and before July 15, 2009, the corporation shall transfer to the authority all files pertaining to loans, grants, or applications for loans or grants under the following programs:

- (1) Small business development under IC 5-28-17 (before its

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- 1 repeal by this act).
- 2 (2) The microenterprise partnership program fund under
- 3 IC 5-28-18 (before its repeal by this act).
- 4 (3) The microenterprise partnership program under
- 5 IC 5-28-19 (before its repeal by this act).
- 6 (4) The small and minority business assistance program under
- 7 IC 5-28-20 (before its repeal by this act).
- 8 (f) After June 30, 2009, and before July 15, 2009, the
- 9 corporation shall assign loans held by the corporation under the
- 10 following to the authority:
- 11 (1) Small business development under IC 5-28-17 (before its
- 12 repeal by this act).
- 13 (2) The microenterprise partnership program fund under
- 14 IC 5-28-18 (before its repeal by this act).
- 15 (3) The microenterprise partnership program under
- 16 IC 5-28-19 (before its repeal by this act).
- 17 (4) The small and minority business assistance program under
- 18 IC 5-28-20 (before its repeal by this act).
- 19 SECTION 30. An emergency is declared for this act.

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COMMITTEE REPORT

Madam President: The Senate Committee on Judiciary, to which was referred Senate Bill No. 501, has had the same under consideration and begs leave to report the same back to the Senate with the recommendation that said bill be AMENDED as follows:

Page 4, line 3, after "by" insert **"IC 26-1-4 or"**.

Page 27, line 1, after "(9)" insert **"Good faith" means honesty in fact in the conduct or transaction concerned.**

(10)".

Page 27, line 5, strike "(10)" and insert **"(11)"**.

Page 27, line 9, strike "(11)" and insert **"(12)"**.

Page 27, line 12, strike "(12)" and insert **"(13)"**.

and when so amended that said bill do pass.

(Reference is to SB 501 as introduced.)

BRAY, Chairperson

Committee Vote: Yeas 9, Nays 0.

COMMITTEE REPORT

Madam President: The Senate Committee on Rules and Legislative Procedure reports that pursuant to Senate Rule 33(c), the following technical corrections are to be made to Engrossed Senate Bill 501.

Page 27, line 1, delete "Good" and insert **"Good"**.

(Reference is to ESB 501 as printed February 6, 2009.)

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COMMITTEE REPORT

Mr. Speaker: Your Committee on Financial Institutions, to which was referred Senate Bill 501, has had the same under consideration and begs leave to report the same back to the House with the recommendation that said bill be amended as follows:

Page 1, between the enacting clause and line 1, begin a new paragraph and insert:

"SECTION 1. IC 4-4-34 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY

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1, 2009]:

Chapter 34. Small Business Loan Program

Sec. 1. As used in this chapter, "authority" means the Indiana finance authority created by IC 4-4-11-4.

Sec. 2. As used in this chapter, "financial institution" means any bank, trust company, corporate fiduciary, savings association, credit union, savings bank, bank of discount and deposit, or industrial loan and investment company that is:

- (1) organized or reorganized under the laws of this state; or
- (2) organized or reorganized under the laws of the United States and has its headquarters in Indiana.

The term includes a consumer finance institution licensed to make supervised or regulated loans under IC 24-4.5.

Sec. 3. As used in this chapter, "fund" means the small business loan fund established by section 7 of this chapter.

Sec. 4. As used in this chapter, "participating financial institution" means a financial institution approved by the authority to participate in the small business loan program authorized by this chapter.

Sec. 5. As used in this chapter, "small business" means any person, firm, corporation, limited liability company, partnership, or association that:

- (1) is actively engaged in business in Indiana and maintains its principal place of business in Indiana;
- (2) is independently owned and operated;
- (3) employs not more than one hundred (100) full-time employees; and
- (4) has gross annual receipts of not more than five million dollars (\$5,000,000).

Sec. 6. As used in this chapter, "small business development project" refers to a small business start up or expansion project that proposes to create new jobs in Indiana.

Sec. 7. (a) There is established the small business loan fund. The fund shall be administered by the authority under the direction of the authority's board. Money in the fund must be used for the purposes of this chapter.

(b) The fund consists of the following resources:

- (1) Appropriations from the general assembly.
- (2) Gifts, grants, and donations of any tangible or intangible property from public or private sources.
- (3) Investment income earned on the fund's assets.
- (4) Repayments of loans from the fund.

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(c) The treasurer of state shall invest the money in the fund not currently needed to meet the obligations of the fund in the same manner as other public funds may be invested.

(d) The money remaining in the fund at the end of a fiscal year does not revert to the state general fund.

(e) Interest earned on the fund may be used by the authority to pay expenses incurred in the administration of the fund.

Sec. 8. A financial institution that wishes to participate in the small business loan program established by this chapter shall apply to the authority for the authority's approval. A financial institution may not participate in the program until the financial institution's application is approved. The authority shall publish and maintain a list of participating financial institutions on the authority's Internet web site.

Sec. 9. (a) A small business that wishes to obtain a loan under this chapter must submit an application to a participating financial institution on a form prescribed by the authority. The application must describe the small business development project for which the small business will use a loan received under this chapter.

(b) A small business may not receive a loan under this chapter unless the participating financial institution to which the small business submitted the application required by subsection (a):

(1) approves the application submitted by the small business; and

(2) applies for and receives a deposit of money transferred from the fund that must be used to provide the loan.

(c) A participating financial institution must approve an application submitted under subsection (a) or inform the applicant that the application has been rejected by the participating financial institution not more than fifteen (15) days after the date the application is submitted.

(d) In determining whether to approve an application submitted under subsection (a), the participating financial institution shall evaluate the application using guidelines and criteria developed by the entity responsible for carrying out the duties of the Indiana economic development corporation under IC 5-28-17 concerning small business development.

Sec. 10. A participating financial institution that approves an application submitted under section 9 of this chapter for a small business development project shall apply to receive a deposit under this chapter by submitting to the authority:

(1) a copy of the approved application; and

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- (2) any additional information required by the authority on a form prescribed by the authority.

Sec. 11. The authority shall establish a program review committee to review each application received from a participating financial institution under section 10 of this chapter. The committee must consider the following before making a recommendation to the authority concerning the small business development project for which the participating financial institution has applied for a deposit:

- (1) Whether the proposed small business development project is economically sound and will benefit the people of Indiana by increasing opportunities for employment in Indiana and strengthening the economy of Indiana.
- (2) Whether receiving a loan under this chapter is a major factor in the small business owner's decision to go forward with the project and not receiving the loan will result in the small business not creating new jobs in Indiana.

Sec. 12. Upon the recommendation of the program review committee approving a small business development project, the authority may transfer money from the fund to the participating financial institution for deposit. Interest payable to the authority on money deposited in the financial institution under this section may not exceed the difference between:

- (1) the interest rate for fifty-two (52) week United States Treasury bills, as in effect on the day of the deposit; minus
- (2) one and five-tenths percent (1.5%).

Sec. 13. (a) A participating financial institution that receives money for deposit under section 12 of this chapter must use the money to provide a low interest loan to the owner of the small business who must use the loan for purposes permitted by section 14 of this chapter. A participating financial institution that makes a loan under this chapter may not charge an interest rate to the owner of the small business that exceeds:

- (1) the interest rate payable to the authority under section 12 of this chapter; plus
- (2) three percent (3%).

(b) A participating financial institution and the owner of a small business that receives a loan under this chapter shall enter a loan agreement that must include the following:

- (1) A requirement that the loan proceeds be used for specified purposes consistent with the requirements of this chapter.
- (2) The term of the loan, which may not be greater than

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twenty (20) years.

(3) The repayment schedule.

(4) The interest rate of the loan.

(5) Any other terms and provisions that the authority or financial institution requires.

(c) A loan agreement under this section may also contain:

(1) a requirement that the loan be insured directly or indirectly by a loan insurer or be guaranteed by a loan guarantor; and

(2) a requirement of any other type or types of security or collateral that the authority or financial institution considers reasonable or necessary.

Sec. 14. The owner of a small business may use the proceeds of a loan received under this chapter for one (1) or more of the following purposes:

(1) To purchase real property.

(2) To construct, renovate, or expand a building.

(3) To purchase equipment, furniture, fixtures, or inventory.

(4) Working capital purposes.

Sec. 15. The maximum amount of a deposit made under section 12 of this chapter for a particular small business development project is one million dollars (\$1,000,000).

Sec. 16. (a) The authority shall, following the close of each state fiscal year, submit an annual report of its activities under this chapter for the preceding state fiscal year to the governor, the budget committee, and the general assembly. A report submitted to the general assembly must be in an electronic format under IC 5-14-6. The governor shall forward a copy of the report to the entity responsible for carrying out the duties of the Indiana economic development corporation under IC 5-28-17 concerning small business development.

(b) Beginning November 1, 2010, and before November 1 of each succeeding year, the entity responsible for carrying out the duties of the Indiana economic development corporation under IC 5-28-17 concerning small business development shall:

(1) review the report submitted under subsection (a);

(2) evaluate the effectiveness of the small business loan program; and

(3) submit its findings to the governor, the budget committee, the authority, and the general assembly.

A report submitted to the general assembly must be in an electronic format under IC 5-14-6.

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Sec. 17. (a) An obligation of the authority for losses on loans resulting from death, default, bankruptcy, or total or permanent disability of borrowers is not a debt of the state but is payable solely from the fund.

(b) The making of loans from money transferred from the fund does not constitute the lending of credit by the state for purposes of any other statute or the Constitution of the State of Indiana.

SECTION 2. IC 5-20-7 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 7. Microenterprise Partnership Program Fund

Sec. 1. As used in this chapter, "authority" refers to the Indiana housing and community development authority created under IC 5-20-1-3.

Sec. 2. As used in this chapter, "federal income poverty level" means the nonfarm income official poverty line as determined annually by the federal Office of Management and Budget.

Sec. 3. As used in this chapter, "fund" refers to the microenterprise partnership program fund established by section 8 of this chapter.

Sec. 4. As used in this chapter, "local board" means the:

- (1) governing body of an eligible entity described in section 13 of this chapter; or
- (2) board of directors of a corporation described in section 14 of this chapter.

Sec. 5. As used in this chapter, "local pool" includes both a local investment pool established under section 13 of this chapter and a local opportunity pool established under section 14 of this chapter.

Sec. 6. As used in this chapter, "nontraditional entrepreneur" means a person who operates or seeks to establish a business in Indiana and who is described in one (1) or more of the following categories:

- (1) Persons whose employment has been terminated or who have been laid off and who have limited opportunities for employment or reemployment in the same or a similar occupation in the area in which they reside.
- (2) Persons who are employed but whose family income is not greater than one hundred twenty-five percent (125%) of the federal income poverty level for the same size family.
- (3) Single parents whose family income is not greater than one hundred twenty-five percent (125%) of the federal income poverty level for the same size family.

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- (4) Minorities.
- (5) Women.
- (6) Persons who are at least sixty-five (65) years of age.
- (7) Persons who are at least eighteen (18) years of age but less than twenty-four (24) years of age.
- (8) Welfare recipients.
- (9) Owners or operators of existing businesses with less than twenty-five (25) employees.
- (10) Persons who by reason of physical or mental disability are unable to achieve full vocational participation.
- (11) Members of family farms undergoing economic adjustment and seeking sources of income in addition to the farm.

Sec. 7. (a) The general assembly makes the following findings of fact:

- (1) There exists in Indiana an inadequate amount of locally managed, pooled investment capital in the private sector available to invest in new and existing business ventures, including business ventures by nontraditional entrepreneurs.
- (2) Investing capital and business management advice in new and existing business ventures, including business ventures by nontraditional entrepreneurs, will enhance economic development and create and retain employment in Indiana. This investment will enhance the health and general welfare of the people of Indiana, and it constitutes a public purpose.
- (3) Nontraditional entrepreneurs have not engaged in entrepreneurship and self-employment to the extent found in the mainstream of Indiana's population. Realizing the potential of these nontraditional entrepreneurs will enhance Indiana's economic vitality.

(b) It is the policy of the state to promote economic development and entrepreneurial talent of Indiana's inhabitants by the creation of the microenterprise partnership program fund for the public purpose of promoting opportunities for gainful employment and business opportunities.

Sec. 8. (a) The microenterprise partnership program fund is established within the state treasury. The fund is a revolving fund to:

- (1) provide loans approved by the authority under this chapter and IC 5-20-8;
- (2) carry out the microenterprise partnership program under IC 5-20-9; and



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(3) provide loans or loan guarantees under the small and minority business financial assistance program established by IC 5-20-10-9.

(b) The fund consists of appropriations from the general assembly and loan repayments.

(c) The authority shall administer the fund. The following may be paid from money in the fund:

(1) Expenses of administering the fund.

(2) Nonrecurring administrative expenses incurred to carry out the purposes of this chapter, IC 5-20-9, and IC 5-20-10.

(d) Earnings from loans made under this chapter shall be deposited in the fund.

(e) The treasurer of state shall invest the money in the fund not currently needed to meet the obligations of the fund in the same manner as other public funds may be invested. Interest that accrues from these investments shall be deposited in the state general fund.

(f) Money in the fund at the end of a state fiscal year does not revert to the state general fund.

(g) The fund is subject to an annual audit by the state board of accounts. The fund shall bear the full costs of the audit.

Sec. 9. (a) The authority shall perform the following duties:

(1) Establish and implement the policies and procedures to be used by the authority in the administration of the fund.

(2) Subject to section 11 of this chapter, establish criteria for awarding loans from the fund.

(3) Review and approve or disapprove applications for loans from the fund.

(4) Establish the terms of loans from the fund, which must include the conditions set forth in section 12 of this chapter.

(5) Award the loans approved under this chapter.

(6) Provide the staff and other resources necessary to implement this chapter.

(7) Prepare and distribute to appropriate entities throughout Indiana requests for proposals for the organization and operation of local pools.

(8) Conduct conferences and seminars concerning the fund.

(9) Submit a report concerning the fund to the general assembly before November 1 of each year. The report must include detailed information concerning the structure, operation, and financial condition of the fund. The report must be in an electronic format under IC 5-14-6.

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(b) The authority may enter into contracts necessary for the administration of this chapter, including contracts for servicing loans from the fund.

Sec. 10. A local board may apply for a loan from the fund. A local board's application for a loan must include the following information:

- (1) The total amount of the loan requested from the fund.
- (2) The total amount of matching funds to be provided from the local pool operated by the local board and the sources of those matching funds.
- (3) A detailed description of the local pool, including its investment criteria.
- (4) The impact of the proposed loan on job production in the area served by the local pool.
- (5) Any other information requested by the authority.

Sec. 11. The authority's criteria for awarding loans from the fund to a local board must include the following factors:

- (1) The extent to which local financial institutions invest and participate in the local pool.
- (2) The extent to which the local pool is used as a secondary source of financing that complements conventional financing provided by existing financial institutions.
- (3) The local board's knowledge of successful business practices.
- (4) The extent to which the local board will target the proceeds of the loan toward nontraditional entrepreneurs.
- (5) The extent to which the local board intends to use the loan proceeds for investment in debt, equity, debt with equity attributes, or other forms of creative financing.
- (6) The extent to which the local board's proposed program will encourage clustering of small business programs through proximity to small business incubators and other sources of small business assistance and technology transfer.
- (7) Other criteria established by the authority.

Sec. 12. A loan from the fund to a local board is subject to the following conditions:

- (1) The local board may use the loan from the fund only to make and service grants, equity investments, loans, and loan guarantees to persons who are establishing or operating businesses in Indiana. However, the local board may not spend any part of the loan from the fund to defray the expenses of servicing grants, loans, and loan guarantees unless

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that expenditure is specifically authorized in the loan agreement with the authority.

- (2) The term of the loan may not exceed twenty (20) years.
- (3) The loan must require the local board to provide matching funds in an amount determined by the authority. However, the total of the loan plus the matching funds must be at least:
 - (A) one million dollars (\$1,000,000) for a local investment pool established under section 13 of this chapter; or
 - (B) five hundred thousand dollars (\$500,000) for a local opportunity pool established under section 14 of this chapter.
- (4) The authority may forgive or defer payment of all or part of the interest and principal on the loan.
- (5) The loan agreement must require the local board, through its staff or consultants, to perform the following duties with respect to recipients of financial assistance from the local pool:
 - (A) Provide training in business and financial management techniques.
 - (B) Oversee the fiscal operations of the recipients of financial assistance for at least one (1) year following the receipt of that assistance.
 - (C) Provide fiscal management assistance to recipients of financial assistance when necessary for at least one (1) year following the receipt of the assistance, including assistance in the preparation and filing of federal and state tax returns.
- (6) The local board must make a report concerning the local pool to the authority before September 1 of each year. The report must include detailed information concerning the structure, operation, and financial condition of the local pool.
- (7) Any other conditions that the authority considers appropriate.

Sec. 13. (a) As used in this section, "eligible entity" means any partnership, unincorporated association, corporation, or limited liability company, whether or not operated for profit, that is established for the purpose of establishing a local investment pool.

(b) A local investment pool may be established only by an eligible entity. A political subdivision may participate in the establishment of an eligible entity but may not be the sole member of the eligible entity.

(c) The articles of incorporation or bylaws of the eligible entity,

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as appropriate, must provide the following:

- (1) The exclusive purpose of the eligible entity is to establish a local investment pool to:
 - (A) attract private equity investment to provide grants, equity investments, loans, and loan guarantees for the establishment or operation of businesses in Indiana; and
 - (B) provide a low to moderate rate of return to investors in the short term, with higher rates of return in the long term.
- (2) The governing body of the eligible entity must include:
 - (A) persons who are qualified by professional background and business experience to make sound financial and investment decisions in the private sector; and
 - (B) representatives of nontraditional entrepreneurs.
- (3) The eligible entity may receive funds from:
 - (A) equity investors;
 - (B) grants and loans from local units of government;
 - (C) grants and loans from the federal government;
 - (D) donations; and
 - (E) loans from the fund.

Sec. 14. (a) A local opportunity pool may be established only by a nonprofit corporation or a for-profit corporation established for that purpose. A political subdivision may participate in the establishment of such a corporation but may not be the sole member of the corporation.

(b) The articles of incorporation or bylaws of a corporation described in subsection (a), as appropriate, must provide the following:

- (1) The exclusive purpose of the corporation described in subsection (a) is to establish a local opportunity pool to:
 - (A) attract sources of funding other than private equity investment to provide grants, loans, and loan guarantees for the establishment or operation of nontraditional entrepreneurial endeavors in Indiana; and
 - (B) enter into financing agreements that seek the return of the principal amounts advanced by the pool, with the potential for a greater return.
- (2) The board of directors of the corporation described in subsection (a) must include:
 - (A) persons who are actively engaged in Indiana in private enterprise, organized labor, or state or local governmental agencies and who are qualified by professional background

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and business experience to make sound financial and investment decisions in the private sector; and

(B) representatives of nontraditional entrepreneurs.

(3) The corporation described in subsection (a) may receive funds from:

(A) philanthropic foundations;

(B) grants and loans from local units of government;

(C) grants and loans from the federal government;

(D) donations;

(E) bequests; and

(F) loans from the fund.

Sec. 15. The making of loans from the fund does not constitute the lending of credit by the state for purposes of any other statute or the Constitution of the State of Indiana.

SECTION 3. IC 5-20-8 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 8. Small Business Development

Sec. 1. As used in this chapter, "authority" refers to the Indiana housing and community development authority created under IC 5-20-1-3.

Sec. 2. (a) The authority shall do the following to carry out this chapter:

(1) Contribute to the strengthening of the economy of Indiana by encouraging the organization and development of new business enterprises, including technologically oriented enterprises.

(2) Submit an annual report to the governor and to the general assembly not later than November 1 of each year. The annual report must:

(A) include detailed information on the structure, operation, and financial status of the authority; and

(B) be in an electronic format under IC 5-14-6.

The authority shall conduct an annual public hearing to receive comment from interested parties regarding the annual report, and notice of the hearing shall be given at least fourteen (14) days before the hearing in accordance with IC 5-14-1.5-5(b).

(3) Approve and administer loans from the microenterprise partnership program fund established by IC 5-20-7.

(4) Conduct activities for nontraditional entrepreneurs under IC 5-20-7.

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(5) Establish and administer the microenterprise partnership program under IC 5-20-9.

(6) Establish and administer the small and minority business financial assistance program under IC 5-20-10.

(b) The authority may do the following to carry out this chapter:

(1) Receive money from any source, enter into contracts, and expend money for any activities appropriate to its purpose.

(2) Do all other things necessary or incidental to carrying out the authority's functions under this chapter.

(3) Establish programs to identify entrepreneurs with marketable ideas and to support the organization and development of new business enterprises, including technologically oriented enterprises.

(4) Conduct conferences and seminars to provide entrepreneurs with access to individuals and organizations with specialized expertise.

(5) Establish a statewide network of public, private, and educational resources to assist the organization and development of new enterprises.

(6) Operate a small business assistance center to provide small businesses, including minority owned businesses and businesses owned by women, with access to managerial and technical expertise and to provide assistance in resolving problems encountered by small businesses.

(7) Cooperate with public and private entities, including the Indiana Small Business Development Center Network and the federal government marketing program, in exercising the powers listed in this subsection.

(8) Establish and administer the small and minority business financial assistance program under IC 5-28-10.

(9) Approve and administer loans from the microenterprise partnership program fund established by IC 5-20-7.

(10) Coordinate state funded programs that assist the organization and development of new enterprises.

Sec. 3. Debts incurred by the small business development corporation under authority of IC 4-3-12 (before its repeal) do not represent or constitute a debt of the state within the meaning of the Constitution of the State of Indiana or Indiana statutes. The authority may not incur debt under this chapter. However, the authority shall assume the debt of the small business development corporation that is outstanding on the date the small business

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development corporation is abolished.

SECTION 4. IC 5-20-9 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 9. Microenterprise Partnership Program

Sec. 1. As used in this chapter, "authority" refers to the Indiana housing and community development authority created under IC 5-20-1-3.

Sec. 2. As used in this chapter, "microenterprise" means a business with fewer than five (5) employees. The term includes startup, home based, and self-employed businesses.

Sec. 3. As used in this chapter, "microloan" means a business loan of not more than twenty-five thousand dollars (\$25,000).

Sec. 4. As used in this chapter, "microloan delivery organization" means a community based or nonprofit program that:

- (1) has developed a viable plan for providing training, access to financing, and technical assistance to microenterprises; and
- (2) meets the criteria and qualifications set forth in this chapter.

Sec. 5. As used in this chapter, "operating costs" refers to the costs associated with administering a loan or a loan guaranty, administering a revolving loan program, or providing for business training and technical assistance to a microloan recipient.

Sec. 6. As used in this chapter, "program" refers to the microenterprise partnership program established under section 7 of this chapter.

Sec. 7. (a) The authority shall establish the microenterprise partnership program to provide grants to microloan delivery organizations.

(b) A grant provided under subsection (a) may not exceed twenty-five thousand dollars (\$25,000).

(c) A microloan delivery organization receiving a grant under this section must use the grant for the purposes set forth in this chapter.

Sec. 8. To establish the criteria for making a grant to a microloan delivery organization, the authority shall consider the following:

- (1) The microloan delivery organization's plan for providing business development services and microloans to microenterprises.
- (2) The scope of services provided by the microloan delivery

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organization.

(3) The microloan delivery organization's plan for coordinating the services and loans provided under this chapter with those provided by commercial lending institutions.

(4) The geographic representation of all regions of Indiana, including both urban and rural communities and neighborhoods.

(5) The microloan delivery organization's emphasis on supporting female and minority entrepreneurs.

(6) The ability of the microloan delivery organization to provide business training and technical assistance to microenterprises.

(7) The ability of the microloan delivery organization to monitor and provide financial oversight of recipients of microloans.

(8) The sources and sufficiency of the microloan delivery organization's operating funds.

Sec. 9. A grant received by a microloan delivery organization may be used for the following purposes:

(1) To satisfy matching fund requirements for federal or private grants.

(2) To establish a revolving loan fund from which the microloan delivery organization may make loans to microenterprises.

(3) To establish a guaranty fund from which the microloan delivery organization may guarantee loans made by commercial lending institutions to microenterprises.

(4) To pay the operating costs of the microloan delivery organization. However, not more than ten percent (10%) of a grant may be used for this purpose.

Sec. 10. Money appropriated to the program must be matched by at least an equal amount of money derived from any of the following nonstate sources:

(1) Private foundations.

(2) Federal sources.

(3) Local government sources.

(4) Quasi-governmental entities.

(5) Commercial lending institutions.

(6) Any other source whose funds do not include money appropriated by the general assembly.

Sec. 11. At least fifty percent (50%) of the microloan money

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disbursed by a microloan delivery organization must be disbursed in microloans that do not exceed ten thousand dollars (\$10,000).

Sec. 12. The authority may prescribe standards, procedures, and other guidelines to implement this chapter.

Sec. 13. The authority may use money in the microenterprise partnership program fund established by IC 5-20-7-7 or any other money available to the authority to carry out this chapter.

Sec. 14. Before August 1 of each year, the authority shall submit to the budget committee a supplemental report on a longitudinal study:

- (1) describing the economic development outcomes resulting from microloans made under this chapter; and
- (2) evaluating the effectiveness of the microloan delivery organizations and the microloans made under this chapter in:
 - (A) expanding employment and self-employment opportunities in Indiana; and
 - (B) increasing the incomes of persons employed by microenterprises.

SECTION 5. IC 5-20-10 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 10. Small and Minority Business Financial Assistance Program

Sec. 1. As used in this chapter, "authority" refers to the Indiana housing and community development authority created under IC 5-20-1-3.

Sec. 2. As used in this chapter, "approved lender" means any:

- (1) lending institution; or
- (2) bank, trust company, building and loan association, or credit union;

that is approved by the authority as a lender under this chapter.

Sec. 3. As used in this chapter, "fund" refers to the microenterprise partnership program fund established by IC 5-20-7-7.

Sec. 4. As used in this chapter, "loan" means a direct loan from the fund.

Sec. 5. As used in this chapter, "minority business" means an individual, a partnership, a corporation, a limited liability company, or a joint venture of any kind that is owned and controlled by one (1) or more persons who are:

- (1) United States citizens; and
- (2) members of a minority group.

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Sec. 6. As used in this chapter, "minority group" means:

- (1) blacks;**
- (2) American Indians;**
- (3) Hispanics;**
- (4) Asian Americans; and**
- (5) other similar racial minority groups.**

Sec. 7. As used in this chapter, "owned and controlled" means having:

- (1) ownership of at least fifty-one percent (51%) of the enterprise, including corporate stock of a corporation;**
- (2) control over the management and being active in the day to day operations of the business; and**
- (3) an interest in the capital, assets, and profits and losses of the business proportionate to the percentage of ownership.**

Sec. 8. As used in this chapter, "program" refers to the small and minority business financial assistance program established by section 10 of this chapter.

Sec. 9. As used in this chapter, "small business" has the meaning set forth in IC 5-22-14-1. The term includes an independently owned and operated business that is operating under a franchise from another business.

Sec. 10. The small and minority business financial assistance program is established to provide loans and loan guarantees under this chapter.

Sec. 11. The authority shall do the following:

- (1) Establish and implement the policies and procedures to be used in the administration of this chapter.**
- (2) Enter into contracts and guarantee agreements, as necessary, with approved lenders, state governmental agencies, corporations, and United States governmental agencies, including agreements for federal insurance of losses resulting from death, default, bankruptcy, or total and permanent disability of borrowers.**
- (3) Establish criteria for awarding loans and loan guarantees from the fund, and require that any loan or loan guarantee under this chapter be disbursed and repaid in the manner that the corporation prescribes.**
- (4) Accept, use, and disburse federal funds made available to the corporation by the federal government for the purposes described in this section.**
- (5) Take, hold, and administer, on behalf of any loan program and for purposes of this chapter, property and money and the**

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interest and income derived from the property and money either absolutely or in trust.

(6) Accept gifts, grants, bequests, devises, and loans for purposes of this chapter.

(7) Adopt bylaws to implement this chapter.

Sec. 12. (a) An obligation of the program for losses on loans resulting from death, default, bankruptcy, or total or permanent disability of borrowers is not a debt of the state but is payable solely from the fund.

(b) The making of loans from the fund does not constitute the lending of credit by the state for purposes of any other statute or the Constitution of the State of Indiana.

Sec. 13. From the fund, the authority shall:

(1) guarantee loans made by approved lenders upon conditions prescribed under this chapter to small or minority businesses to assist them in the operation or expansion of their businesses; and

(2) make loans upon conditions prescribed under this chapter to small or minority businesses for the purpose of assisting them in the operation and expansion of their businesses.

Sec. 14. In making loans from the fund, the authority shall require that the recipients of the loans receive training in business and financial management skills, including the preparation and filing of state and federal tax returns.

Sec. 15. (a) The training required by section 13 of this chapter may be provided by consultants or staff members of the authority. The authority shall establish standards for the training.

(b) The duties of the consultants or staff members are as follows:

(1) To provide training in business and financial management techniques to the recipients of loans under this chapter when directed by the authority.

(2) To oversee the fiscal operations of recipients of loans under this chapter for at least one (1) year following the receipt of the loan.

(3) To provide fiscal management assistance when necessary for at least one (1) year following the receipt of the loan, including assisting recipients in filing state and federal tax returns."

Page 8, between lines 40 and 41, begin a new paragraph and insert:
"SECTION 7. IC 26-1-1-301, AS ADDED BY P.L.143-2007, SECTION 5, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE

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JULY 1, 2009]: Sec. 301. (1) Except as **provided in IC 26-2-5.5 or as** otherwise provided in this section, if a transaction bears a reasonable relation to Indiana and also to another state or nation, the parties may agree that the law either of Indiana or of the other state or nation shall govern their rights and duties.

(2) In the absence of an agreement under subsection (1), and except as provided in subsection (3), IC 26-1 applies to transactions bearing an appropriate relation to Indiana.

(3) If any of the following provisions specifies the applicable law, that provision governs, and a contrary agreement is effective only to the extent permitted by the law so specified:

- (a) IC 26-1-2-402.
- (b) IC 26-1-2.1-105 and IC 26-1-2.1-106.
- (c) IC 26-1-4-102.
- (d) IC 26-1-4.1-507.
- (e) IC 26-1-5.1-116.
- (f) IC 26-1-8.1-110.
- (g) IC 26-1-9.1-301 through IC 26-1-9.1-307."

Page 32, after line 11, begin a new paragraph and insert:

"SECTION 27. IC 26-2-5.5 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:

Chapter 5.5. Construction or Design Contract; Choice of Laws Provision Not Enforceable

Sec. 1. This chapter applies only to contracts entered into, extended, or renewed after June 30, 2009.

Sec. 2. Except as provided in section 3 of this chapter, if a construction or design contract purports to choose the laws of a jurisdiction other than Indiana to govern the contract, the choice is not enforceable.

Sec. 3. If any of the following provisions specifies the applicable law, that provision governs to the extent it conflicts with section 2 of this chapter:

- (1) IC 26-1-2-402.
- (2) IC 26-1-2.1-105 and IC 26-1-2.1-106.
- (3) IC 26-1-4-102.
- (4) IC 26-1-4.1-507.
- (5) IC 26-1-5.1-116.
- (6) IC 26-1-8.1-110.
- (7) IC 26-1-9.1-301 through IC 26-1-9.1-307.

SECTION 28. THE FOLLOWING ARE REPEALED [EFFECTIVE JULY 1, 2009]: IC 5-28-17; IC 5-28-18; IC 5-28-19; IC 5-28-20.



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SECTION 29. [EFFECTIVE UPON PASSAGE] (a) As used in this SECTION, "authority" refers to the Indiana housing and community development authority established by IC 5-20-1-3.

(b) As used in this SECTION, "corporation" refers to the Indiana economic development corporation established by IC 5-28-3-1.

(c) The corporation and the authority shall cooperate with the authority to transfer the following from administration by the corporation to administration by the authority:

- (1) Small business development under IC 5-28-17 (before its repeal by this act).
- (2) The microenterprise partnership program fund under IC 5-28-18 (before its repeal by this act).
- (3) The microenterprise partnership program under IC 5-28-19 (before its repeal by this act).
- (4) The small and minority business assistance program under IC 5-28-20 (before its repeal by this act).

(d) After June 30, 2009, and before July 15, 2009, the corporation shall transfer money in microenterprise fund under IC 5-28-18 (before its repeal by this act) to the authority for deposit in the microenterprise partnership program fund under IC 5-20-7 (as added by this act). In addition, on or before July 15, 2009, the corporation shall transfer to the authority all the accounting records and related information pertaining to the microenterprise partnership program fund under IC 5-28-18 (before its repeal by this act).

(e) After June 30, 2009, and before July 15, 2009, the corporation shall transfer to the authority all files pertaining to loans, grants, or applications for loans or grants under the following programs:

- (1) Small business development under IC 5-28-17 (before its repeal by this act).
- (2) The microenterprise partnership program fund under IC 5-28-18 (before its repeal by this act).
- (3) The microenterprise partnership program under IC 5-28-19 (before its repeal by this act).
- (4) The small and minority business assistance program under IC 5-28-20 (before its repeal by this act).

(f) After June 30, 2009, and before July 15, 2009, the corporation shall assign loans held by the corporation under the following to the authority:

- (1) Small business development under IC 5-28-17 (before its

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repeal by this act).

(2) The microenterprise partnership program fund under IC 5-28-18 (before its repeal by this act).

(3) The microenterprise partnership program under IC 5-28-19 (before its repeal by this act).

(4) The small and minority business assistance program under IC 5-28-20 (before its repeal by this act).

SECTION 30. An emergency is declared for this act."

Renumber all SECTIONS consecutively.

and when so amended that said bill do pass.

(Reference is to SB 501 as printed February 6, 2009.)

BARDON, Chair

Committee Vote: yeas 11, nays 0.

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